GENSTAR

FORM 10-K
1978

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL REPORTS

Filed pursuant to Section 13 of
the Securities Exchange Act of 1934

Fiscal year ended December 31, 1978   Commission File No. 2-36614

GENSTAR LIMITED

(Exact name of Registrant as specified in charter)

Incorporated under the laws of Canada

Suite 4105
One Place Ville Marie
Montreal, Quebec, Canada H3B 3R1

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Shares	New York Stock Exchange, Inc. (U.S.A.)

"The Registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (ii) has been subject to such filing requirements for the past 90 days.

Yes X No ___."

The number of shares outstanding of the Registrant's common stock as of December 31, 1978 was 13,415,738.

None of the above executive officers of the Registrant are related. All of the above officers hold office at the pleasure of the Board of Directors of the Registrant.

Mr. A.A. Franck has been Chairman of the Board since April 26, 1976, prior to which he was Chairman of the Board and Chief Executive Officer of the Registrant, which office he held from April 30, 1973. From January 10, 1964 to April 30, 1973, Mr. Franck was President of the Registrant. Mr. Charles de Bar has been Deputy-Chairman of the Board since April 30, 1973, prior to which he was Executive Vice-President, which office he held from February 23, 1966. Mr. A.A. MacNaughton has been Vice Chairman and Chief Executive Officer since April 26, 1976, prior to which he was President of the Registrant, which office he held from April 30, 1973. From June 17, 1970 to April 30, 1973, Mr. MacNaughton was Executive Vice-President. Mr. R.J. Turner has been President and Chief Executive Officer since April 26, 1976, prior to which he was President of Genstar Western Limited, which office he held from January 1973. From July 1971 to January 1973 Mr. Turner was President and Chief Operating Officer of Seaspan International Ltd., a subsidiary of the Registrant.

Mr. W.S. Bannister has been Executive Vice-President since November 17, 1976, prior to which he was President and Chief Executive Officer of Inland Cement Industries Ltd., a division of the Registrant, which office he held from November 1973. From June 1973 to November 1973, Mr. Bannister was Vice-President, Operations - International Group of Lone Star Industries Inc., a major cement manufacturer in the United States, prior to which he was President and General Manager of Argentine Portland Cement Company of Buenos Aires, Argentina from January 1971 to June 1973. Mr. Bannister is responsible for the Registrant's land and housing operations. Mr. J.L. Holman has been Executive Vice-President since November 17, 1976, prior to which he was Vice-President of BACM Industries Ltd., a subsidiary of the Registrant, and General Manager of the Registrant's western building materials operations which offices he held from December 1972. Mr. Holman is responsible for the Registrant's construction and concrete products operations. Mr. B.T. Johnson has been Executive Vice-President of the Registrant since November 17,1976, prior to which he was President and Chief Executive Officer of Genstar Chemical Limited which office he held from December 1969. Mr. Johnson is responsible for the Registrant's manufacturing operations. Mr. N.A. Liberatore was appointed an Executive Vice-President of the Registrant on September 26, 1977. Prior to his appointment, he was a Senior Vice President and Director of Ebasco Services Incorporated, a major engineering and construction organization based in New York which office he held from October 1974. During the period November 1965 to October 1974, he was a Senior Vice President and President, International Group, of Lone Star Industries,

Inc. Mr. Liberatore is responsible for the Registrant's domestic and international marine activities as well as all non-marine international operating activities outside of Canada and the United States.

Mr. G.F. Michals was appointed a Senior Vice-President of the Registrant on April 26, 1976, prior to which he was Vice-President which office he held from February 20, 1974. From April 1968 to February 1974, Mr. Michals was an officer of Dominion Textiles Limited, a major Canadian manufacturer of textiles. In December 1970 he was appointed Vice-President, Subsidiary Companies, reporting to the Chairman and in March 1971, Executive Vice-President of a major division of Dominion Textiles until he joined the Registrant. Mr. Michals is the chief financial officer of the Registrant and his responsibilities include the treasury and accounting functions of the Registrant. Mr. B.A. Monkman has been a Senior Vice-President since April 26, 1976, prior to which he was Senior Vice-President of BACM Industries Limited, a subsidiary of the Registrant, which office he held from February 1968. Mr. Monkman is responsible for investigation of the technical aspects of new opportunities and co-ordinating technical reviews between the Registrant's operations and the capital expenditure program.

Mr. R.D. Paterson was appointed Vice-President and Comptroller of the Registrant on November 22, 1978, prior to which time he was Comptroller from October 1, 1973. From May 13, 1971 to September 26, 1973, Mr. Paterson was Vice-President of Indussa Corporation, a subsidiary of the Registrant. Mr. G.W. Rutledge has been a Vice-President since December 9, 1970, and Vice-President and Treasurer of the Registrant from September 26, 1970 to September 18, 1974. Mr. Rutledge is responsible for corporate development activities of the Registrant. Mr. A.J. Unsworth was appointed Secretary as well as Vice-President and General Counsel of the Registrant on August 21, 1978 prior to which he was Vice-President and General Counsel from April 26, 1976. From January 17, 1973 to April 26, 1976 he was General Counsel prior to which he was Secretary of the Registrant. Mr. L.E. Whitworth was appointed a Vice-President of the Registrant on December 12, 1973, with responsibilities for personnel, insurance and pension matters. Prior to his appointment, Mr. Whitworth was Manager - Planning and Development which position he held since January 1971.

Mr. H.W. McAdams was appointed Treasurer of the Registrant on September 18, 1974, prior to which he was Vice-President (Finance & Administration) of B.A.C.M. Development Corporation Limited, a subsidiary of the Registrant. Prior to this office, he was employed by Ernst & Ernst, Chartered Accountants, until 1972 when he joined B.A.C.M.

For information regarding developments in the last fiscal year, reference is made to the Registrant's reports on Form 10-Q filed with the Securities and Exchange Commission for three months ended March 31, 1978, June 30, 1978, September 30, 1978, Commission File No. 1-6063 and Form 8-K filed on September 13, 1978, Commission File No. 1-6063.

Building Materials

The Registrant produces a wide variety of building materials and supplies, including pre-cast and pre-stressed structural and architectural concrete products (which are erected by the Registrant), concrete pipes ranging from six inches to 114 inches in diameter, concrete blocks, concrete railway ties, ready-mix concrete and masonry supplies. These operations have been carried on in both Eastern and Western Canada; however, the Registrant has recently announced the sale of the building material operations of its Montreal-based subsidiary, Miron Company Ltd. As a consequence, the Registrant will not be involved as a producer of building materials and supplies in Eastern Canada upon the conclusion of the sale which is expected shortly. Reference is made to the 10-Q filed by the Registrant with the Securities and Exchange Commission on November 15, 1978, Commission File No. 1-6063.

The Registrant also manufactures gypsum wallboard, sold under the trade name "Truroc" at three plants in Saskatchewan, Alberta and British Columbia.

In addition, the Registrant produces sand, gravel and classified aggregates, substantially from its own pits and quarries, for use in its manufacturing and construction activities and for sale to others.

In British Columbia, the Registrant operates five tugs and 15 barges which are used for transporting its cement, sand, gravel and aggregates used in its manufacturing activity and also for sale to others. The Registrant's mineral resources are believed to be sufficient for its requirements, at recent levels of consumption, for approximately 15 years. The Registrant's customers include the federal, provincial and municipal governments, many commercial, institutional and residential construction firms and the general public. During the year ended December 31, 1978, approximately 6 percent of the production of the Registrant's Western Canada building materials operations was used within the Registrant's other operations and the balance was sold to others primarily in the centres of Winnipeg, Calgary, Edmonton, Regina, Saskatoon and Vancouver. The Registrant believes it is a significant supplier of concrete products in Manitoba, Saskatchewan, Alberta and British Columbia. In 1978, approximately 95 percent

of the Registrant's cement requirements were supplied by its cement division. See "Cement".

The Alberta economy continued very strong in 1978 particularly in the Calgary area. However, net income was affected by increased competition. The Saskatchewan economy showed signs of strengthening, however, a four-month strike in some construction trades was harmful. Some construction trades were also on strike in the province of Manitoba over a period of approximately five months and generally operations in that province remained weak. Operations in British Columbia were mixed as the economy did not show any appreciable sign of recovery and competition continued very strong.

As at December 31, 1978, these operations had a backlog of firm orders for concrete products and materials and pre-cast concrete contracts amounting to $37.5 million compared with $14,235,000 at the same date in 1977. It is estimated that approximately $36 million of this backlog will be filled during 1979.

Cement

The Registrant is the third largest manufacturer of cement in Canada, marketing normal portland, high early strength, sulphate resistant, oilwell and masonry cements to meet the requirements of special projects.

The Registrant has recently announced the sale of the cement production operations of its Montreal-based subsidiary, Miron Company Ltd. Upon conclusion of the sale which is expected shortly, the Registrant will not be a manufacturer of cement in Eastern Canada. Reference is made to the 10-Q filed by the Registrant with the Securities and Exchange Commission on November 15, 1978, Commission File No. 1-6063. The following discussion relates solely to the ongoing western Canadian cement operations of the Registrant.

In 1978 the Registrant utilized approximately 26 percent of its western cement production in its own building materials and construction operations. The balance of the Registrant's 1978 western cement sales were made to over 2,600 customers, including producers of ready-mix concrete, concrete products manufacturers, oilwell cement firms, construction contractors and governments.

The location, annual capacity, number of kilns, percentage of capacity utilized and site areas of the Registrant's Western Canada cement plants are as follows:

Location	Annual Capacity (Tons)	No. of Kilns	Percentage utilized 1976	1977	1978	Site Area In Acres
Edmonton, Alta.	577,500	3	101	103	105	443
Regina, Sask.	227,500	1	96	82	98	309
Winnipeg, Man.	350,000	1	78	83	97	248
Bamberton, B.C.	570,000	3	99	95	93	140
Vancouver, B.C.	1,100,000	1	-	-	14	67
	2,825,000	9	95	96	65	1,207

The above-rated capacity figures are after making allowance for normal downtime maintenance. Currently, the Registrant's cement plants, except the new Vancouver plant, operate at capacity except during periods of major maintenance which normally take place during the low demand winter months. The 65 year-old Bamberton plant is being phased out and is scheduled to close during 1980. All of the other plants which are owned by the Registrant are well maintained and are in good operating condition.

The Registrant has constructed a new cement plant near Vancouver at a cost of $100 million which will, when the start-up and break in period is over, replace the Registrant's facilities at Bamberton. The new plant, which was completed in 1978, has an annual capacity of 1,100,000 tons. The Registrant has entered into long-term supply contracts for the sale of cement and clinker representing 40 percent of capacity up to 1983 and declining percentages of capacity thereafter through to 1988. The balance of production will be sold primarily in the British Columbia market.

In addition, in February 1978, the Registrant announced the third phase of expansion of the Edmonton plant. This expansion will increase the capacity of the plant by 797,500 tons of clinker. The total cost of the expansion will be $78 million. To date, $28.7 million has been spent on the overall expansion.

The principal raw materials in cement manufacture are limestone, clay and gypsum. The Registrant owns and operates limestone quarries in Manitoba, Alberta and British Columbia which supply the requirements of the Regina, Edmonton and Bamberton plants. The limestone requirements for its Winnipeg plant are presently purchased; however, the Registrant holds long-term leases on limestone deposits in Manitoba to meet future requirements of this plant. The limestone for the Vancouver plant is being purchased and the Registrant has entered into a five-year contract for this purpose. The Registrant owns high grade and extensive limestone deposits on Texada Island, British Columbia, to meet future requirements. Limestone is hauled by rail from the quarries which supply the Winnipeg, Edmonton and Regina plants; however,

company trucks are used to haul the limestone for the Bamberton plant due to the proximity of the quarry to the plant. Clay for the Registrant's operations at Edmonton, Regina and Winnipeg is, in each case, supplied from lands owned by the Registrant at the site of each plant. At the Registrant's Bamberton plant shale is supplied from a quarry owned by the Registrant. Secondary raw materials for the new Vancouver plant are partially purchased and partially supplied from the Registrant's own quarry near Bamberton. Considering both company-owned or leased raw material reserves and purchase opportunities available on the open market, limestone, clay and shale are in sufficient supply to satisfy production requirements, assuming operation at the expanded capacity, for more than 20 years. The limestone deposits for the Bamberton plant are expected to be depleted at the end of 1980 when the plant is expected to be closed. The Registrant's gypsum requirements, obtained from outside sources of supply, are available at competitive prices.

The Registrant intends to retain ownership of its coal properties near Edmonton even though its plans to operate the coal mine as a primary fuel source for the cement plants have been indefinitely postponed. Until such time as the Edmonton expansion is fully operational and our personnel familiar with the new technology, the Registrant does not plan to convert to coal from natural gas.

Earnings for 1978 were less than previous years as a result of financing and start-up costs associated with the new plant in Vancouver more than offsetting sales volume gains. Increases in unit revenues were enough to cover higher manufacturing costs and the cost of purchasing and moving cement to meet the demand in the Alberta market.

Land Development and Housing

Canada

The Registrant is engaged in land development activities in Canada, principally in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario. Tracts of raw land are assembled and developed by installing sewers, water mains, streets, sidewalks and other improvements. Currently about 80 percent of the improved land is sold to other builders and the balance is used in the Registrant's home-building operations.

As of December 31, 1978, the Registrant had a land inventory of 17,000 acres in Canada, including the serviced land requirements for approximately 2,071 single and semi-detached housing units and including 16,411 acres available for future development of single-family, multi-family and commercial projects. In addition, the Registrant had approximately 1,800 acres under option.

The Registrant entered into a joint venture agreement with ATCO Industries and several minority interests whereby approximately 13,000 acres of land in Alberta were transferred to the partnership, creating a further year-end inventory of 12,200 acres over which the Registrant provides management services.

The Registrant builds and sells homes under the names "Engineered Homes", "Keith Homes" and "Standard Homes" in several urban centres the principal ones being Calgary, Edmonton, Vancouver, Winnipeg and Saskatoon. Major divisional offices and staff are maintained at these cities and branch offices are located in several smaller centres, for a total of 12 sales offices in Canada. Homes constructed may be single family, duplexes or townhouse units; they are constructed in a variety of styles and plans and sell in a wide price range to meet the various requirements of the home-buying public. During 1978 the Registrant sold 2,163 new homes in Canada compared to 2,267 in 1977. At year-end, housing inventories included 900 units in various stages of completion compared to 1,570 units at year-end in 1977. Of these inventories, 340 units in 1978, as compared to 490 units in 1977, were being built against commitments to purchase. The Registrant also contracts to erect single and multiple family dwellings in newly developing and often isolated areas of northern Canada.

A substantial part of the Registrant's residential dwellings are constructed using pre-assembled sections and component packages designed and manufactured by the Registrant in Calgary, Alberta. The major part of the plant's production is used by the Registrant, and the balance is sold as factory packages to builders in rural areas of Western and Northwestern Canada who erect and market the Registrant's product. Not included in total sales in 1978 were 371 package home sales to other builders compared with 440 in 1977.

The Registrant operates a factory in Calgary which manufactures kitchen cabinets sold to other builders and suppliers and used in the Registrant's own operations. In Calgary the Registrant has plumbing, electrical, landscaping and millwork operations which support the home construction there, as well as providing services and products to the public.

The Registrant is also engaged in commercial property development and is presently developing a large shopping centre and redeveloping inner city property in Ontario.

In 1978, sales of single family dwellings in Western Canada continued to be strong in Alberta, were down slightly in Manitoba and British Columbia, and up marginally in Saskatchewan.

United States

The Registrant is engaged in land development and house building activities in the United States, principally in California, Texas, Florida and Washington. As in the Registrant's Canadian operations, tracts of raw land are assembled and developed by installing sewers, water mains, streets, sidewalks and other improvements.

The Registrant develops land under the names "Genstar Southern Development Company" in Florida, "Penasquitos Properties" in San Diego and "Genstar Development Inc." in Washington state. As of December 31, 1978, the Registrant had a land inventory in the United States of 12,600 acres, including the serviced land requirements for approximately 2,035 single and semi-detached housing units and including 12,100 acres available for multi-family, future development of single-family and commercial projects, and approximately 3,150 acres under option.

In Florida the Registrant is developing 1,100 acres known as "The Hammocks" in Dade County, located near Miami. This serviced land will be capable of providing for 8,000 residential units, a 40-acre commercial site and 100 acres of industrial land.

During 1978 all land holdings of Penasquitos, Inc., a land development operation which had approximately 8,500 acres of land in various stages of development in San Diego, were purchased from that company for $93 million. The development plan will be to develop land to the tract map stage and sell to other developers who will install services. Cascade Park in Vancouver, Washington, 2,400 acres of residential and industrial development land, was also acquired outright or optioned during the year.

The Registrant's New Jersey land was sold during 1978 and included approximately 2,100 acres of residential, commercial and industrial land in New Jersey, Pennsylvania and New York.

The Registrant develops land and builds and sells homes under the names "Broadmoor Homes" in California and "Genstar Homes of Texas, Inc." in Houston, Texas. Broadmoor Homes in California is the Registrant's oldest house builder in the United States. It was acquired by the Registrant in 1973 and has been in operation since 1961. Through Broadmoor Homes, the Registrant entered the area of condominium conversion in 1978, although no sales have been registered to date. The Registrant's Texas house building and sale operations commenced during 1977 and land development activities commenced during 1978; at year-end, 762 acres of raw land were in inventory.

During 1978 in the United States, the Registrant sold 945 homes, approximately the same number as in 1977. At year-end, housing inventory was 177 completed units and 560 units under construction, compared to 64 and 232, respectively, in 1977.

The Registrant is also engaged in the development and sale of shopping centres and industrial properties in California and other western states which range in size from five to 80 acres and in value from $2 million to $20 million. These properties are normally developed under arrangements where commitments from major tenants are obtained prior to purchase of the land and commencement of construction. At year-end 1978, there were 15 shopping centres and industrial properties under development in California and in Nevada.

The Registrant also participates in joint venture investments involving the development of residential properties principally in California. For further information see "Financial Services".

Construction

The Registrant's construction business includes site preparation and construction of hydro-electric power installations, airports, bridges, dams, highways, reservoirs, pumping stations, heavy industrial structures, concrete and asphalt pavements, highways, sewer and water installations. Heavy construction business is competitively bid or negotiated on a cost plus or fixed fee basis and is performed for federal, provincial and local authorities, as well as for the private sector. The majority of the Registrant's construction contracts are of the lump sum or unit price types. The Registrant's construction work is normally done with its own personnel and equipment. The construction operations are conducted principally in Canada and the United States. The Registrant is a major construction enterprise based in the "Prairie Provinces" and Quebec. The Montreal-based construction operations will be discontinued as remaining contracts are completed in 1979.

In Western Canada, joint venture contracts for Manitoba Hydro's Nelson River Development continued in 1978. Two contracts totalling $42 million were completed in 1978. In 1978, completion of the new cement plant near Vancouver and expansion of the Edmonton plant for the Registrant's cement division were other major areas of activity.

In Quebec, the Registrant's major projects, through a subsidiary, included dams, autoroutes and bridges. It also has a one-third portion of a $155 million joint venture contract which was awarded during 1977 for work on Quebec Hydro's James Bay project. The contract is for the construction of a major earth

and rock fill dam which will be completed in 1981 and at year-end is 19 percent complete.

In the United States, the Registrant's major projects included the construction of a breakwater and the excavation and lining of tunnels. Both projects are located in the Northwestern United States and will be completed in 1979.

As at December 31, 1978, the Registrant's construction operations had a backlog of firm orders amounting to $93 million compared to $148 million at the same date in 1977. It is contemplated that approximately 67 percent of this backlog of orders will be completed during 1979. Certain projects require more than one year for completion.

Marine

The Registrant's Canadian marine operations are primarily on the West Coast; however in Eastern Canada it provides ship docking services in the Port of Montreal and engages in marine towing, salvage and oil pollution control on the St. Lawrence River and the Great Lakes.

The Registrant's West Coast marine activities consist of the operation of a fleet of 55 tugs and 259 barges. The Registrant is engaged in the transportation of logs, wood chips, pulp and paper, lumber, salt, lime rock, petroleum and chemical products, materials for the construction industry, ship docking, operation of rail car barges and terminals between major railroads in British Columbia and the Northwestern United States, the operation of pusher tugs on the Great Lakes and marine salvage operations in the Pacific Ocean.

The Registrant also owns and operates a shipyard in North Vancouver. In addition to ship repairs, overhauls and conversions, the yard is capable of building vessels 500 feet in length and 100 feet in width, marine drilling rigs, supply and cargo vessels, tugs, ferries and barges. Facilities include level shipbuilding berth and side launchway enabling the construction of two vessels simultaneously. The continued depressed condition of the shipbuilding industry throughout the world has resulted in increased competition for the repair work available. The Registrant substantially increased its revenues from the operation of its shipyard in 1978, and this was mainly due to federal and provincial government contracts, which accounted for more than 50 percent of both repairs and new construction.

The Registrant is also a partner in a joint venture known as Union Towing & Transportation Limited. This company was

established in 1974 and provides tug and barge services to oil drilling and pipe-laying operations in the North Sea. In the move to cut back its international marine operations, the joint venture known as Global Transport Organisation (GTO) in which the Registrant was a one-third participant has been dissolved and as a result the Registrant sold its one-third interest in the Euro-Arab Sea Trailer Line S.A. transportation service between France and Saudi Arabia and also its one-third interest in Arctic Transportation Ltd. Both of these sales were effected in the first quarter of 1979.

The operations of the Registrant are heavily dependent upon the Canadian West Coast forest industry as some two-thirds of its revenues are generated by the transportation of its products and the servicing of its operations. The increased demand for newsprint, pulp and paper on the world market has had a favourable influence on this segment of the Registrant's operations, and has resulted in increased revenues for 1978.

Investments

The Flintkote Company

During 1978 the Registrant acquired a 21.5 percent interest in The Flintkote Company of Stamford, Connecticut, making the Registrant the largest single shareholder. Flintkote is a producer of cement, building materials, and floor coverings with operations in the United States and Canada. Flintkote has commenced legal proceedings against the Registrant which proceedings are more fully described under "Item 5 - Legal Proceedings".

Chemical Division

The Registrant manufactures chemicals, fertilizer materials and mixed fertilizers for distribution primarily in the provinces of Ontario, Quebec, New Brunswick, Prince Edward Island, Nova Scotia and the states of Maine, New York and Vermont. Chemicals are purchased for resale in the Eastern United States.

Industrial chemicals and nitrogen-based chemicals are produced at the Registrant's plant located on a 369-acre site at Maitland, Ontario, which provides ample space for future expansion. The plant's approximate annual capacities, in short tons, are 90,000 tons of ammonia, 170,000 tons of ammonium nitrate, 85,000 tons of nitrogen solution, 345,000 tons of nitric acid, 50,000 tons of urea and varying amounts of industrial gases. The plant's capacities are substantially utilized.

The Registrant presently sells approximately 16 percent of its Maitland production under contracts with DuPont of Canada Limited which expire in 1985 and cover the sale of hydrogen, nitrogen, nitric acid and ammonium nitrate.

Approximately 10 percent of the Maitland plant's production is used by the Registrant's fertilizer operations. The remainder of the plant's production is sold to customers in the chemical, steel, resin, feed, textile and explosives industries and to other fertilizer manufacturers.

The Registrant is one of five major producers of fertilizer in Eastern Canada and markets a variety of mixed fertilizers, mainly under the trade name "Nutrite", manufactured at 15 plants located in Eastern Canada, Maine and Vermont. Fertilizer materials, other than those obtained from the Maitland plant, are obtained from various suppliers. These processing plants are presently operating at approximately 70 percent of their combined annual capacity of 500,000 tons. In 1978 sales of the Registrant's fertilizer operations accounted for approximately 20 percent of the estimated consumption of agricultural fertilizers in Eastern Canada.

The Registrant also has a 66 percent equity interest in an explosives plant in Minnesota with an annual capacity of 60 million pounds.

The Registrant made a small profit in 1978 despite a continuing soft market, loss of business due to the U.S. coal miners' strike, high cost due to inefficiencies of the nitric acid plants and sharply rising material and utility costs, which caused increased pressure on margins. Fertilizer profits were as expected despite highly competitive markets.

Other Investments

The Registrant's import-export division based in New York was sold during the first quarter of 1978.

Also, the balance of the Registrant's income properties acquired on the acquisition of Abbey Glen Property Corporation were sold in 1978.

Financial Services

Venture Capital

The venture capital operation of the Registrant provides capital to small business concerns principally in the Western United States. Emphasis has been placed on equity investments in

technology-oriented new companies involving a high degree of risk. At December 31, 1978, the Registrant held venture capital investments, all of which are minority positions, in 35 different companies. A number of these investments are not readily marketable. Investments include companies in the areas of computer peripheral equipment, microfilm products, semiconductor production equipment, small business computers and chemical analysis products. The investment objective is to create and build major, well-established companies and then realize gains by selling all or part of the Registrant's position. Investments are usually held for at least five years. During 1978, over $5.6 million was invested in portfolio companies, approximately 73 percent ($4.1 million) in new investments and 27 percent ($1.5 million) in companies already in the investment portfolio at December 31, 1977. During 1978 the value of the portfolio increased substantially reflecting stronger operational performance in most investments as well as the exchange of a 20 percent interest in Qume Corporation for 970,000 common shares of International Telephone and Telegraph (ITT). The Registrant's venture capital division was one of the initial investors in Qume when it was established in 1973.

Real Estate Joint Ventures

During 1978 the Registrant was a partner in a number of joint ventures, usually as a limited partner, for the development of properties in California, Arizona, Washington, Texas and Nevada. The ventures relate to residential housing and land development projects, condominium construction and conversions, garden-office development, shopping centre development and apartment construction. Participation by the Registrant is usually limited to providing financial, marketing and administrative assistance to the venture. The Registrant had investments in 49 joint ventures at December 31, 1978. Through joint ventures, in 1978 the Registrant sold 1,500 housing units and three income properties.

Other Financial Services

By the end of 1978 the Registrant had merged the operations of three California thrift and loan companies obtained through acquisition into one entity with six branches in Northern California. The thrift and loan institutions accept deposits and make short-term consumer loans and loans on residential second mortgages. The Registrant expects to open four new branches in 1979.

In 1978 the Registrant acquired Americal Instrument Corporation based in Palo Alto, California. This company specializes in the rental of electronic test and measurement equipment on a short-term basis and has 10 inventory centres and 19 sales offices in the United States and Canada.

The Registrant also provides title insurance and escrow services in the San Francisco Bay area. This division is headquartered in Oakland, California and operates four regional offices and 23 branch offices.

In early 1979, the Registrant acquired Westmor Corporation, a mortgage banking and service company. This company has offices in California, Georgia, Arizona and Nevada, and is engaged in the business of originating and servicing real estate mortgage loans as co-respondant for institutional investors.

The Registrant has certain other investments in Canada, the United States and internationally, including international marine financing and insurance operations.

Competition and Other Factors

The Registrant encounters vigorous competition in most phases of its business. In some instances the Registrant competes with others who are larger and have greater financial resources. In general, heavy construction operations are largely dependent on government public works programmes and residential construction operations on the availability and cost of mortgage funds.

These factors also influence the Registrant's building materials and cement activities. Operations are also significantly influenced by weather conditions. Transportation expenses are an important cost element in many aspects of the Registrant's business. The Registrant encounters intensive competition in its chemical and fertilizer operations from other major producers and distributors in the industry both in Canada and in the United States.

The Registrant's marine operations are a significant factor in the marine transportation and towing industry on the West Coast of Canada, but encounter competition both from other marine transportation companies and industrial enterprises transporting their own products.

Competition in the venture capital field includes large financial institutions and major corporations. Also, the companies which comprise the venture capital portfolio are relatively small and highly specialized. Many of them compete with large enterprises in their respective fields.

Legislation

Pursuant to an application under the Foreign Investment Review Act (Canada) (the "Act"), the Registrant received a ruling, in

May 1976, that it is not a non-eligible person under the Act. In October 1978, the ruling was renewed, which renewal is valid for a period of two years from the date of its issuance assuming that the circumstances as outlined in the Registrant's application do not change significantly. In the event that the Registrant's status under the Act should become that of a non-eligible person it may be required to obtain approval under the Act for future acquisitions of certain Canadian businesses, whether through purchase of shares or assets and for the establishments of certain new Canadian businesses.

The Canadian Government's three-year anti-inflation program implemented through the Anti-Inflation Act was terminated during 1978.

Environmental Matters

All plants and other installations and properties of the Registrant with the exception of the Bamberton cement plant are operating within current environmental standards in Canada and the United States and there is no material outstanding action or notice given in respect of the breach of any significant environmental matter by the Registrant. The Bamberton cement plant does not operate within present environmental standards but in view of the high cost of compliance and the fact this plant will close in 1980 the Pollution Control Board of British Columbia has issued an interim order permitting continuing operations. The Registrant does not anticipate material capital outlays with respect to environmental standards, nor does it anticipate requirements which may materially affect the earning power of any of the Registrant's businesses or which may cause material changes in such businesses or in intended businesses of the Registrant in view of existing or pending legislation and regulation. Nevertheless, government pollution abatement requirements are becoming more stringent particularly with respect to cement operations and it is expected that the Registrant will incur capital expenditures of approximately $3.9 million in the next year for environmental control facilities.

Employee Relations

The total number of people employed by the Registrant in all subsidiaries and divisions ranged from a high of 12,080 persons to a low of 7,460 persons. Generally the higher number of employees existed during the summer months, while the low occurred in the winter. The highs and lows for each category were as follows: approximately a high of 850 and a low of 770 in the cement operations, a high of 3,500 and a low of 2,450 in the building materials operations, a high of 1,590 and a low of

1,120 in the housing and land development operations, a high of 550 and a low of 500 in the chemical and fertilizer operations, and a high of 1,770 and a low of 1,340 in the marine operations. Venture capital and other investment operations combined employ on the average 500 persons. These figures do not include the approximately 300 employees of Westmor Corporation, recently acquired by the Registrant, and approximately 575 employees of Miron Company Ltd., which company, as indicated is currently under negotiation to be sold.

Approximately 65 percent of the Registrant's employees are represented by 98 collective bargaining groups under separate union contracts, 60 of which, including 25 with respect to the construction-related operations and six to the marine operations, are subject to renegotiation during 1979.

The Registrant's Quebec construction employees are covered by a government construction industry decree which contains the major items included in a labor agreement.

The Registrant considered its labor relations to be good in 1978 and there were no significant work stoppages in operations.

The Registrant has retirement and profit-sharing plans covering approximately 2,900 employees, to provide a monthly pension for life after retirement at age 65 or later. The benefits of these plans are integrated with government plans now in effect. The Registrant also provides customary fringe benefits to its employees. In addition, approximately 400 employees of the Registrant's Eastern Canada construction operations are covered by a retirement plan included in the province of Quebec construction decree. Reference is made to the Notes to the Consolidated Financial Statements of the Registrant and its subsidiaries for details concerning the funding of the various pension plans by the Registrant.

ITEM 1B FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS
and
ITEM 1D FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The information pertaining to these items is presented in the Consolidated Financial Statements on pages F34 and F37.

ITEM 2 SUMMARY OF OPERATIONS OF REGISTRANT AND ITS CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years Ended December 31				
	1978	1977	1976	1975	1974
	(thousands of Canadian dollars)				
REVENUES	1,143,042	981,078	821,549	684,347	578,422
COSTS AND EXPENSES					
Cost of sales and services	778,054	677,934	565,087	491,536	418,761
Selling, general and administrative	116,267	98,193	81,122	59,849	48,628
Depreciation, depletion and amortization	50,181	34,691	32,328	26,522	24,244
Interest on long-term debt	26,036	30,711	27,549	12,109	10,285
Other interest	23,896	18,519	12,662	9,775	7,530
	994,434	860,048	718,748	599,791	509,448
INCOME BEFORE THE FOLLOWING	148,608	121,030	102,801	84,556	68,974
Provision for income taxes					
Current	40,300	45,700	36,900	29,500	28,500
Deferred	26,700	10,900	10,200	7,900	5,400
	67,000	56,600	47,100	37,400	33,900
NET INCOME FOR THE YEAR	81,608	64,430	55,701	47,156	35,074
RETAINED EARNINGS - BEGINNING OF YEAR	185,956	140,302	100,539	67,649	45,448
Reduction of United States income taxes	-	-	91	649	23
	267,564	204,732	156,331	115,454	80,545
Dividends - preferred shares	717	950	1,345	1,314	1,319
- common shares	21,236	17,826	14,684	13,601	11,577
	21,953	18,776	16,029	14,915	12,896
RETAINED EARNINGS - END OF YEAR	$ 245,611	$185,956	$140,302	$100,539	$ 67,649
PER COMMON SHARE					
INCOME					
Primary	$ 6.01	$ 5.01	$ 4.58	$ 4.01	$ 3.05
Fully diluted	5.89	4.73	4.23	3.69	2.77
DIVIDENDS	1.61	1.42	1.25	1.20	1.05

See notes to consolidated statements of income and retained earnings.

NOTES TO CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE FIVE YEARS ENDED DECEMBER 31, 1978

RESTATEMENT OF COMPARATIVE AMOUNTS

Prior years' statements of income have been restated to reflect on the equity method of accounting the operations of the import-export division which were sold in early 1978.

COST OF SALES

Inventories used in computing cost of sales are as follows:

(thousands of dollars)

As at December 31	1978 - $462,372	1975 - $186,669
	1977 - $330,144	1974 - $164,556
	1976 - $311,653	1973 - $106,950

INCOME PER COMMON SHARE

Primary income per common share has been determined by dividing net income for the year, after deducting dividends on the preferred shares, by the following average number of shares outstanding which include common stock equivalents:

		(thousands)			(thousands)
Years ended December 31:	1978...	13,248	Years ended December 31:	1976...	11,874
	1977...	12,667		1975...	11,437
				1974...	11,069

Fully diluted income per common share has been determined by dividing net income for the year, plus the after tax effect of interest on debt assumed to be converted, by the average number of shares outstanding, reflecting the assumed conversion or exercise at the beginning of the year or the date of issue if later, of preferred shares, convertible debt, warrants and options all as detailed in the following table:

	Years ended December 31,				
	1978	1977	1976 (thousands)	1975	1974
Net income..............................	$81,608	$64,430	$55,701	$47,156	$35,074
After tax effect of interest on debt assumed to be converted.................	$ 39	$ 275	$ 123	$ 120	$ 229
Average number of shares outstanding......	13,867	13,691	13,175	12,822	12,733

Increases in net income in 1974 resulted partly from the purchase of the remaining 50% of the shares of a subsidiary engaged in the marine transportation and shipbuilding businesses in British Columbia and the acquisition of a company engaged in the building materials, cement and construction businesses in Quebec. Also, buoyant economic conditions in Western Canada in 1974 created strong demand for goods produced and services provided by the company resulting in significant net income gains and world-wide shortage of nitrogen-based chemicals and fertilizers resulted in an increase in net income of $6,057,000 in the chemicals and fertilizers division in 1974. The high level of capital spending on natural resources projects in Western Canada which caused a strong demand for company products and services together with an improved Quebec economy were the major factors contributing to the increased earnings in 1975. Continued economic strength

and expanding productive capacity in Western Canada, together with reduced interest rates and an improving economy in California produced significant net income gains in 1976 and 1977. The 1976 increase was partially offset by reductions in chemical prices, government spending cutbacks and labour problems in Eastern Canada and British Columbia. The 1977 increase was partially offset by poor results from cement, building materials and construction operations in Eastern Canada and international marine operations and absorption of interest and administrative costs associated with the construction of a new cement plant in British Columbia. In 1978, continued economic strength in Western Canada and California housing and land development division, a major sale of a venture capital investment, increased California real estate joint venture financing activity and the sale of remaining Canadian revenue property investments resulted in increases in net income. These increases were partially offset by continued poor operating results in Eastern Canadian and International Marine divisions including depreciation to reflect the reduced utility of chemical and marine assets and provisions for terminations of certain construction and marine activities.

MANAGEMENTS' DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

REVENUES

In 1978, revenues increased $162 million compared to a restated $160 million increase in 1977. The restatement reflects the sale of the import-export division in 1978. A summary of increases in revenues by industrial category is as follows:

	1978	1977
	(millions of dollars)	
Increase (Decrease)		
Cement...........................	24	6
Housing and land development.....	31	127
Marine...........................	18	7
Financial services...............	40	5
Other categories.................	16	45
	129	190
Decrease (Increase) in inter-category revenues..........	33	(30)
	$162	$160

Cement revenues increased in 1978 because of high demand in Alberta which was in part met by shipments from the company's Eastern Canadian cement facility. United States land and housing revenues were up $35 million in 1978 as a result of new operations in Florida and Texas, the sale of the company's land holdings in the Northeast and sales increases in California. In Canada, land development revenues declined $17 million due to equity accounting for the company's share of income of a partnership to which the majority of its Alberta land holdings were contributed in 1978. In 1977, $51 million of the increase in the housing and land development category was the result of expansion of operations and strong demand in California. Canadian land development activities were the source of a $39 million increase in 1977, most of which was the result of rapid development and sale of some of the land acquired with a subsidiary in mid-1976.

Marine revenues in Western Canada benefited from a high level of activity in the British Columbia forest products industry as well as the integration of the operations of a subsidiary acquired in mid-1977. Revenues of the financial services category increased $29 million including the sale of a major venture capital portfolio security and $9 million from the first full year of operation of the real estate joint venture financing activities. Both of these divisions are based in California.

The decrease in 1978 and the increase in 1977 inter-category revenues are attributable to the amount of work performed in each year by the engineering and industrial construction division for the cement division. The construction division is the general contractor on both the Vancouver cement plant and the Edmonton plant expansion. The decrease in 1978 was offset to a great degree by increases in third-party work performed by the construction services division in Alberta.

COST OF SALES AND SERVICES

Cost of sales and services was 68 per cent of revenues in 1978 compared to 69 per cent in 1977 and 1976. The 1978 reduction in the cost of sales percentage resulted from accounting on the equity basis for the operations of real estate financing joint ventures in California and a significant land development partnership in Alberta. The reductions were partially offset by losses on Eastern Canadian construction operations and international marine joint ventures combined with increased costs in building materials and cement operations. Increases in the 1977 costs as a percentage of revenue were attributable to increased costs in Canadian cement, construction and housing operations which were offset by increased revenue in the higher-margin Canadian land development and California land and housing operations.

EXPENSES

Selling, general and administrative expenses increased by $18 million or 18 per cent in 1978 and $17 million or 21 per cent in 1977. Continued expansion in United States operations accounted for $10 million of the 1977 increase. Reduction of expenses of a subsidiary acquired in mid-1976 produced a 1978 decrease of $2 million compared to a $2 million increase in 1977. The balance of the increases relate primarily to Western Canadian land and housing volume increases, administrative costs during construction of expanded cement capacity in Western Canada and greater outside service costs of a general corporate nature. A corporate cost-cutting program introduced in 1977 resulted in reductions in chemical and fertilizer and Western Canadian building materials and construction divisions, and limited general increases in other divisions to less than the rate of inflation.

DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation, depletion and amortization increased by $16 million in 1978 compared to a $2 million increase in 1977. Additional depreciation of the chemical facilities at Maitland, Ontario and the international marine fleet accounted for $13 million of the 1978 increase and reflects the reduced utility of these assets. Increased capital investment in Western Canadian cement and marine divisions produced additional 1978 depreciation which was partially offset by the sale of certain revenue properties. The 1977 increase is a result of a full year's charge for the prior year's additions to building materials and marine equipment.

INTEREST

Total interest expense was $50 million in 1978 and $49 million in 1977. Higher interest rates and the cost of financing the expanded United States operations and Western Canadian cement plants were offset by interest cost reductions in Canadian land and housing and revenue property operations. The 1977 interest costs increased by $9 million because of larger land and housing inventories in California and the construction of a cement plant in Vancouver together with the consolidation for a full year of the accounts of a Canadian real estate subsidiary acquired in mid-1976.

FOREIGN EXCHANGE

Included in 1978 net income is $3.4 million of unrealized foreign exchange losses resulting from the translation of accounts of subsidiaries denominated in United States dollars. The following table shows the historic relationship of the Canadian dollar to United States currency at December 31 of each of the past five years:

	U.S. equivalent of $1.00 Canadian
1978	$0.84
1977	0.91
1976	0.99
1975	0.98
1974	1.01

ITEM 3 - LIST OF PROPERTIES

The physical property of the Registrant consists of land, buildings, machinery and equipment and quarries and gravel deposits. Substantially all of the assets of the Registrant are held subject to mortgages and/or floating charges securing indebtedness of the Registrant.

The principal real properties of the Registrant are as follows:

Location	Description
Building Materials	
Kitimat, B.C. Nanaimo, B.C. Prince George, B.C. Terrace, B.C. Greater Vancouver, B.C. (4) Victoria, B.C. Calgary, Alberta (3) Red Deer, Alberta Edmonton, Alberta (3) Grande Prairie, Alberta Lloydminster, Alberta Moose Jaw, Saskatchewan Regina, Saskatchewan Saskatoon, Saskatchewan Winnipeg, Manitoba (2) Brandon, Manitoba Portage La Prairie, Manitoba	Concrete ready-mix plants
Calgary, Alberta Edmonton, Alberta Lethbridge, Alberta Grande Prairie, Alberta Kitimat, B.C. Vancouver, B.C. Vernon, B.C. Regina, Saskatchewan Winnipeg, Manitoba	Concrete pipe plants
Calgary, Alberta Edmonton, Alberta Kitimat, B.C. Prince George, B.C. Vancouver, B.C. Victoria, B.C. Regina, Saskatchewan Winnipeg, Manitoba	Concrete block plants

Building Materials (Cont'd)

Various Locations:

British Columbia (4) Alberta (10) Saskatchewan (18) Manitoba (4)	Pits and quarries
Vancouver, B.C. Victoria, B.C. Calgary, Alberta (2) Edmonton, Alberta (2) Regina, Saskatchewan Saskatoon, Saskatchewan Winnipeg, Manitoba (4)	Asphalt plants
Calgary, Alberta Edmonton, Alberta (2) Regina, Saskatchewan (2) Winnipeg, Manitoba Vancouver, B.C.	Pre-cast and pre-stressed concrete plants
Edmonton, Alberta	Concrete railway tie plant
Edmonton, Alberta Saskatoon, Saskatchewan Vancouver, B.C.	Gypsum wallboard plants
Calgary, Alberta Edmonton, Alberta	Lightweight aggregate plants
Kitimat, B.C. Port Mellon, B.C. Prince George, B.C. Royal Bay, B.C. Calgary, Alberta Red Deer, Alberta Edmonton, Alberta Lloydminster, Alberta Moose Jaw, Saskatchewan Regina, Saskatchewan Saskatoon, Saskatchewan Winnipeg, Manitoba (2) Brandon, Manitoba	Aggregate plants

Construction

Vancouver, B.C. Calgary, Alberta Edmonton, Alberta Regina, Saskatchewan Winnipeg, Manitoba Montreal, Quebec	Construction equipment and maintenance shop

Cement

Edmonton, Alberta Bamberton, B.C. Vancouver, B.C. Regina, Saskatchewan Winnipeg, Manitoba	Cement plants
Cadomin, Alberta Cobble Hill, B.C. Texada Island, B.C. Mafeking, Manitoba Steep Rock, Manitoba	Limestone quarries and/or deposits
St. Albert, Alberta	Coal property
Calgary, Alberta Saskatoon, Saskatchewan Thunder Bay, Ontario	Distribution centres

Chemicals and Fertilizers

Maitland, Ontario	Chemical plant
Alliston, Ontario Chesterville, Ontario Cornwall, Ontario Welland, Ontario Elmira, Ontario Hanover, Ontario Montreal, Quebec St. Arsene, Quebec Ste. Foy, Quebec Ste. Rosalie, Quebec Victoriaville, Quebec Grand Falls, N.B. Summerside, P.E.I. Presque Isle, Maine Sheldon Junction, Vermont	Mixed fertilizers plants

Chemicals and Fertilizers (Cont'd)

Biwabik, Minnesota	Explosives plant

Financial Services

Mountain View, California Anaheim, California Northridge, California Dallas, Texas Chicago, Illinois Boston, Massachusetts Oakland, New Jersey Washington, D.C. Ft. Lauderdale, Florida Toronto, Ontario	Inventory centres (electronic test and measurement equipment for rent)

Land Development and Housing

Calgary, Alberta	Home component factory
Calgary, Alberta	Cabinet factory

Marine

Victoria, B.C. North Vancouver, B.C.	Shipyards
North Vancouver, B.C.	Operations' centre

In addition to the foregoing plants and properties, the Registrant leases properties, plants and equipment in Canada and the United States. The Registrant also has interest directly or through joint ventures in income properties.

The Registrant owns more than 5,200 pieces of mobile construction equipment including power shovels, tractors, trucks, ready-mix concrete units, cranes, loaders, scrapers, dozers, draglines, rock wagons and earth-moving and paving equipment.

In addition, it has portable concrete and asphalt plants, mobile crushing and screening equipment, portable soil cement plants, and a large number of mobile trailers to house men in remote points. At the height of the construction season, other equipment is also rented. On occasion, the Registrant also rents equipment for specific projects.

ITEM 4 PARENTS AND SUBSIDIARIES

Company	Organized Under laws of
Subsidiaries Included in Consolidated Financial Statements	
Americal Instrument Corporation	California
Atlas Thrift Company	California
British Columbia Cement Company Limited	British Columbia
Broadmoor Homes, Inc.	California
Construction Aggregates Ltd.	British Columbia
Dorster, Inc.	Delaware
Engineered Homes Limited	Alberta
First American Title Guaranty Company	California
Genstar Chemical Inc.	Maine
Genstar Construction Limited	Manitoba
Genstar Development Inc.	New York
Genstar Finance N.V.	Netherland Antilles
Genstar Holding N.V.	Netherlands
Genstar Homes of Texas Inc.	Texas
Genstar, Inc.	Delaware
Genstar International S.A.	Luxembourg
Genstar Overseas Limited	Bermuda
Genstar Pacific Corporation	California
Genstar Securities Corporation	Delaware
Genstar Services Limited	Canada
Genstar Southern Development Corporation	Delaware
Keith Construction Company Limited	Alberta
McAllister Towing and Salvage Ltd.	Canada
Miron Company Ltd.	Quebec
Ocean Construction Supplies Limited	British Columbia
Ocean Construction Supplies Northern Limited	British Columbia
Rental Electronics Inc.	California
Seaspan International Inc.	Washington
Seaspan International Ltd.	British Columbia
Sierra Bancorp, Inc.	California
Sutter Hill Limited	California

Immediate Parent	Percentage of Voting Securities Owned by Immediate Parent
Genstar Pacific Corporation	100
Sierra Bancorp, Inc.	100
Ocean Construction Supplies Limited	100
Genstar Development Inc.	100
Ocean Construction Supplies Limited	100
Genstar Pacific Corporation	100
Registrant	100
Genstar Pacific Corporation	71
Indussa Corporation	100
Registrant	100
Genstar Pacific Corporation	100
Genstar Holding N.V.	100
Registrant	100
Genstar Pacific Corporation	100
Genstar Holding N.V.	100
Registrant	100
Genstar International S.A.	100
Genstar Inc.	100
Genstar Holding N.V.	100
Registrant	100
Genstar Development Inc.	100
Registrant	100
Registrant	100
Registrant	100
Registrant	100
Ocean Construction Supplies Limited	100
Americal Instrument Corporation	100
Seaspan International Ltd.	100
Registrant	100
Genstar Pacific Corporation	100
Genstar Pacific Corporation	100

ITEM 5 - LEGAL PROCEEDINGS

As indicated in Item 1 to this Report, the Registrant acquired a 21.5 percent interest in the outstanding shares of The Flintkote Company in 1978. On October 6, 1978, The Flintkote Company instituted legal action in the United States District Court of the Northern District of California against the Registrant and certain of its officers, directors, shareholders and subsidiaries. Generally, the claim alleges breaches of securities legislation reporting requirements and anti-trust violations. More specifically it has alleged that the 13-D reports filed were false and misleading, that Federal Reserve Board margin requirements were breached, that the price of Flintkote stock was manipulated and that the Clayton Act and Sherman Act were violated. On March 9, 1979, the Court dismissed the claim with respect to the margin requirements and the manipulation of the price of Flintkote stock. The Plaintiff is seeking an injunction to prohibit the Registrant from further purchases of shares of The Flintkote Company and also for an order that the shares acquired to date be divested by the Registrant. The Federal Trade Commission is also investigating the acquisition of the Flintkote shares. The management of the Registrant believes that the allegations are without foundation and has commenced to defend its position and move toward adjudication of these claims at the first possible opportunity.

During 1977 an investigation was commenced relating to ready-mix concrete and related concrete products in the Calgary area of the Province of Alberta. An officer of the Registrant testified at the hearings in Calgary, Alberta, in 1977 and since that time no charge has been laid under the Combines Investigation Act against the Registrant or any of its subsidiaries with respect to the investigation. It is unknown whether the investigation has terminated or may at some future time be continued, and if so, what the effects, if any, may be on the ready-mix concrete operations.

During 1977 the U.S. Treasury Department initiated an anti-dumping investigation in respect of imports of portland hydraulic cement from Canada. A final determination of sales at less than fair value was made by the Treasury Department in 1978; however the U.S. International Trade Commission determined that no injury resulted to domestic producers as a result of the less than fair value selling. Accordingly, the administrative investigation was terminated. However, the Glens Falls division of The Flintkote Company has commenced suit in the U.S. Customs Court challenging the no-injury determination. Cement produced by a subsidiary of the Registrant in Western Canada and sold in the United States is potentially subject to anti-dumping duties if this challenge is ultimately successful. Miron Company Ltd., a subsidiary of the Registrant producing cement in the Province

of Quebec, is also subject to this investigation; however, an agreement has been entered into to sell the cement operations of Miron Company Ltd., which sale will be concluded in the first half of 1979. The Registrant is defending the challenge as are other Canadian producers, U.S. importers, and the U.S. Government. It is not possible at this time for management of the Registrant to forecast the effect on the Registrant if the challenge is successful.

ITEM 6 - INCREASES IN OUTSTANDING SECURITIES OF THE REGISTRANT

A - Increases in Common Shares of the Registrant

As at December 31, 1977, there were 12,876,572 Common Shares of the Registrant issued and outstanding.

During the fiscal year ended December 31, 1978, 539,166 Common Shares were issued as follows, resulting in a total of 13,415,738 Common Shares outstanding as at December 31, 1978:

(1) Between January 1, 1978, and September 30, 1978, a total of 387,501 Common Shares of the Registrant were issued. For information on said Shares, reference is made to the Registrant's quarterly reports on Form 10-Q to the Securities and Exchange Commission for the fiscal quarters ending March 31, June 30 and September 30, 1978.

(2) During November 1978, the Registrant issued 4,000 Common Shares to one employee, an officer of a subsidiary of the Registrant, pursuant to the Stock Purchase Plan at a price of \$34.58 per share for an aggregate consideration of \$138,320. On the date of issue of said Shares, the market price of the same was \$34.75. Since no such Common Shares were offered or sold to a resident of the United States of America or its territories or possessions, no registration thereof was required under the Securities Act of 1933.

(3) During October, November and December 1978, the Registrant issued 147,645 Common Shares at \$20.00 per share pursuant to the conversion of 147,645 Convertible Preferred Voting Shares Series A, Series B and Series D of the Registrant. During October, November and December 1978, the market price of the Registrant's Common Shares, on the Toronto Stock Exchange, ranged between \$33.25 and \$37.00. Since no such Preferred Shares Series A, Series B or Series D and Common Shares (issued upon conversion of the Preferred Shares Series A, Series B or Series D) were offered or sold to a resident of the United States of America or its territories or possessions, no registration thereof was required under the Securities Act of 1933.

(4) During October, November and December 1978, the Registrant issued 20 Common Shares at $17 CDN per share pursuant to the exercise of 20 Share Purchase Warrants of the Registrant, which were issued by the Registrant at the time and in conjunction with the issue in Canada by the Registrant in June 1968 of 8% Series D First Mortgage Bonds of the Registrant. The market price of the Registrant's Common Shares on the Toronto Stock Exchange on the dates of issue ranged between $33.25 and $37.00. Since no such Bonds, Warrants and Common Shares (issued upon exercise of Warrants) were offered or sold to a resident of the United States of America or its territories or possession, no registration thereof was required under the Securities Act of 1933.

B - Increases in Preferred Shares of the Registrant

(1) Between January 1978 and December 1978, the Registrant issued 98,217 Series D $1.50 Cumulative Convertible Redeemable Preferred Shares as a result of the conversion of Class A Special Shares of Abbey Glen Property Corporation to Series D Preferred Shares. For information pertaining to the issue of the Series D Shares at the time of the acquisition of Abbey Glen Property Corporation in 1976, by the Registrant, reference is made to the Registrant's reports on Form 8-K to the Securities and Exchange Commission for the months of November and December 1976 and January 1977. Since no Series D Preferred Shares were offered or sold to residents of the United States of America or its territories or possessions, no registration thereof was required under the Securities Act of 1933.

(2) On October 31, 1978, 1,000,000 Non-Voting Second Preferred, Series A Shares were issued to The Royal Bank of Canada for a consideration of U.S. $100 million. These shares were designated from the 20,000,000 Second Preferred Shares in existence and reference is made to the Registrant's report on Form 10-Q to the Securities and Exchange Commission filed November 15, 1978.

Common Shares, Series D Preferred Shares and Second Preferred Series A Shares issued during October, November and December 1978 by the Registrant, as detailed under paragraphs A-(2) to (4), and B-(1) and (2) were represented by certificates which were not legended as none of said Shares were offered or sold to residents of the United States of America or its territories or possessions.

ITEM 7 - CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable

ITEM 8 - DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 9 - NUMBER OF EQUITY SECURITY HOLDERS AS AT MARCH 1, 1979

Title of Class	Number of Registered Holders
Common Shares 13,462,985 of which 10,650,676 were in registered form and 2,812,309 were in bearer form for which the Registrant has no knowledge of the number of holders	6,332
First Preferred Shares (Convertible)	
- Series A 7,154 all in registered form	75
- Series B 288,337 of which 193,085 were in registered form and 95,252 were in bearer form for which the Registrant has no knowledge of the number of holders	164
- Series D 173,669 in registered form	431
Second Preferred Shares	
- Series A 1,000,000 in registered form	1

ITEM 10 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Shareholders of the Registrant was held on May 17, 1978. Reference is made to the Registrant's Proxy Statement filed with the Securities and Exchange Commission on March 31, 1978.

(b) All the nominees to serve on the Board of Directors of the Registrant were elected.

(c) (i) Stock Purchase Plan

The shareholders of the Registrant approved a resolution of the Board of Directors increasing the number of Common Shares of Genstar which may be acquired by the Trustees of the Stock Purchase Plan for purchase by designated officers and employees of the Registrant from 500,000 to 800,000 Common Shares. In addition, the resolution authorized the increase of monies which may be advanced by the Registrant to the Trustees in any one year from \$3 million to \$4 million and at any one time outstanding from \$8 million to \$15 million.

Reference is made to Exhibit A of the Registrant's Proxy Statement filed with the Securities and Exchange Commission on March 31, 1978 for the full text of the Plan with amendments.

There were 8,778,863 affirmative votes on this matter and 13,207 negative votes.

(ii) Restatement of By-laws

The shareholders of the Registrant sanctioned By-law 42 repealing all former by-laws of the Registrant with the exception of By-law 20 and further sanctioned By-law CBCA I, the new general by-law of the Registrant providing for meeting of shareholders and directors.

Reference is made to Exhibit B of the Registrant's Proxy Statement filed with the Securities and Exchange Commission on March 31, 1978 for the full text of By-law 42 and By-law CBCA I.

There were 8,783,313 affirmative votes on this matter and 8,147 negative votes.

ITEM 11 - INDEMNIFICATION OF DIRECTORS AND OFFICERS

Reference is made to the Registrant's Officers and Directors indemnification insurance policy cover note together with standard form of policy previously filed with the Registrant's registration statement on Form S-1, Commission File No. 2-32129.

ITEM 12(a) 1 - FINANCIAL STATEMENTS AND SCHEDULES

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

Columns omitted from schedules filed have been omitted because the information is not applicable.

*The Flintkote Company constitutes a significant investee of the Registrant and that company's financial statements and schedules have been included in this report. The information has been reproduced from The Flintkote Company annual report on Form 10-K as filed with the Securities and Exchange Commission, Washington, D.C. on March 30, 1979. Neither the Registrant nor their independent chartered accountants take any responsibility for the accuracy or completeness of the financial statements and schedules as they did not prepare, review or approve such information.

ITEM 12(a) 2 - GENSTAR LIMITED EXHIBITS

1. Copy of a Certificate of Amalgamation dated March 31, 1978;

2. Copy of a Certificate of Amendment dated October 31, 1978;

3. Copy of a Certificate of Amalgamation dated January 1, 1979;

4. Copy of Amendment Number One to Registrant's Canadian Employees' Stock Savings Plan;

5. The Registrant's quarterly reports on Form 10-Q for the quarters ending March 31, June 30 and September 31, 1978, Commission File Number 1-6063 are incorporated herein by reference;

6. The Registrant's reports on Form 8-K for the months of November and December 1976, Commission File Number 1-6063, January 1977, Commission File Number 1-6063 and September 1978, Commission File Number 1-6063 are incorporated herein by reference;

7. The Registrant's Officers and Directors indemnification insurance policy cover note together with standard form of policy filed with the Registrant's registration statement on Form S-1, Commission File Number 2-32129 is incorporated herein by reference.

ITEMS 13 to 15

The Registrant has filed with the Securities and Exchange Commission a definitive Proxy Statement on March 30, 1979, pursuant to Regulation 14A. Therefore, Items 13 to 15 are omitted.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENSTAR LIMITED

Per: ______________________

Douglas A. Love
Assistant Secretary

Dated March 30, 1979

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Board of Directors
of Genstar Limited

We have examined the financial statements of Genstar Limited and the consolidated financial statements (including the results by industrial category) of Genstar Limited and subsidiaries as at December 31, 1978 and 1977 as set forth on pages F-2 through F-37 , and the individual and consolidated schedules as listed in reference to Item 10 of the Annual Report to the Securities and Exchange Commission on Form 10K pursuant to regulations under the Securities Exchange Act of 1934, as set forth on pages S-1 through S-20 of this report. We have also examined the results by industrial category for the years from 1974 to 1976 included on pages F-34 and F-35 . Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these individual and consolidated financial statements present fairly the financial position of Genstar Limited and the consolidated financial position of Genstar Limited and subsidiaries as at December 31, 1978 and 1977 and the individual and consolidated results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the results by industrial category referred to above are presented fairly in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

MONTREAL, Canada
February 21, 1979

CHARTERED ACCOUNTANTS

GENSTAR LIMITED

STATEMENTS OF INCOME
For the years ended December 31, 1978 and 1977
(thousands of Canadian dollars)

	1978	1977
REVENUES		
Net sales	363,162	148,137
Investment income	37,069	28,439
	400,231	176,576
COSTS AND EXPENSES		
Cost of sales	250,669	100,955
Selling, general and administrative	43,660	18,380
Depreciation, depletion and amortization	20,585	5,885
Interest on long-term debt	14,750	14,891
Other interest	19,637	11,926
	349,301	152,037
INCOME BEFORE INCOME TAXES	50,930	24,539
Provision for income taxes		
Current	(1,400)	(1,866)
Deferred	20,300	3,779
	18,900	1,913
NET INCOME FOR THE YEAR	$ 32,030	$ 22,626

GENSTAR LIMITED

BALANCE SHEETS
As at December 31, 1978 and 1977
(thousands of Canadian dollars)

	Note Reference	1978	1977
ASSETS			
CURRENT ASSETS			
Accounts receivable - trade..................		124,942	42,699
- subsidiaries..........		16,540	24,826
Inventories................................	3	104,617	55,495
Advances to subsidiaries....................		118,427	88,960
		364,526	211,980
DEVELOPMENT LAND AND MORTGAGES..............	4	68,427	22,132
INVESTMENTS	5		
Subsidiaries................................		409,449	251,920
Other.......................................		18,109	7,997
		427,558	259,917
FIXED ASSETS	7		
Properties, plants and equipment............		330,076	217,452
Accumulated depreciation and depletion.......		107,649	54,894
		222,427	162,558
INTANGIBLE ASSETS...........................	8	35,198	29,682
		$1,118,136	$686,269

	Note Reference	1978	1977
LIABILITIES			
CURRENT LIABILITIES			
Short-term borrowings....................	9	43,934	78,656
Accounts payable........................		79,614	38,641
Income taxes............................		38,922	4,754
Advances relating to land inventories.....		14,070	3,715
Current portion of debt..................	10	16,105	7,736
		192,645	133,502
LONG-TERM DEBT..........................	10	275,101	233,935
DEFERRED REVENUE........................	12	62,906	-
DEFERRED INCOME TAXES...................		75,700	28,502
		606,352	395,939
SHAREHOLDERS' EQUITY			
PREFERRED SHARES........................	11	130,291	13,122
COMMON SHARES AND CONTRIBUTED SURPLUS.....	11	190,564	179,383
RETAINED EARNINGS.......................		190,929	97,825
		511,784	290,330
		$1,118,136	$686,269

GENSTAR LIMITED

STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the years ended December 31, 1978 and 1977
(thousands of Canadian dollars)

	Note Reference	1978	1977
SOURCE OF FUNDS			
NET INCOME FOR THE YEAR		32,030	22,626
ITEMS NOT AFFECTING FUNDS			
Depreciation, depletion and amortization		20,585	5,885
Gain on sales of revenue property investments		(9,839)	-
Deferred income taxes		20,300	3,779
Deferred revenue		(6,615)	-
Other		2,476	(1,122)
FUNDS FROM OPERATIONS		58,937	31,168
AMALGAMATION OF SUBSIDIARIES	2	106,731	32,048
FORMATION OF PARTNERSHIP	12	70,123	-
SALE OR REDUCTION OF			
Investments		64,735	7,128
Fixed assets		621	338
Development land, mortgages and revenue properties		39,952	3,459
ISSUE OF			
Mortgages, debentures and long-term debt		64,030	96,200
Capital stock	11	128,214	6,968
		533,393	177,309
APPLICATION OF FUNDS			
PURCHASE OF			
Investments		310,612	49,474
Fixed assets		35,740	70,569
Development land and mortgages		10,351	-
PAYMENT OR REDUCTION OF			
Mortgages, debentures and long-term debt		61,334	7,785
Dividends		21,953	18,776
		439,990	146,604
WORKING CAPITAL			
Increase for the year		93,403	30,705
At beginning of year		78,478	47,773
At end of year		$171,881	$ 78,478

GENSTAR LIMITED

STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Continued)

	1978	1977
CHANGES IN ELEMENTS OF WORKING CAPITAL		
CURRENT ASSETS Increase (Decrease)		
Accounts receivable - trade	82,243	20,640
- subsidiaries	(8,286)	24,826
Income taxes	-	(1,525)
Inventories	49,122	32,557
Advances to subsidiaries	29,467	9,392
	152,546	85,890
CURRENT LIABILITIES Increase (Decrease)		
Short-term borrowings	(34,722)	31,982
Accounts payable	40,973	15,521
Income taxes	34,168	4,754
Advances relating to housing and land inventories	10,355	3,715
Current portion of long-term debt	8,369	(787)
	59,143	55,185
INCREASE IN WORKING CAPITAL FOR THE YEAR	$93,403	$30,705

STATEMENTS OF RETAINED EARNINGS
For the years ended December 31, 1978 and 1977
(thousands of Canadian dollars)

	Note Reference	1978	1977
BALANCE - BEGINNING OF YEAR		97,825	29,206
Amalgamation of subsidiaries	2	83,027	64,769
Net income for the year		32,030	22,626
		212,882	116,601
Dividends - preferred shares		717	950
- common shares		21,236	17,826
		21,953	18,776
BALANCE - END OF YEAR		$190,929	$ 97,825

GENSTAR LIMITED

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 1978 and 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interest Costs
Interest costs related to land development inventories and the construction of fixed assets are charged to income as incurred. Interest costs related to specific debt used to finance long-term development land are capitalized.

Inventories
Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally on the first-in first-out basis and includes all overhead elements except depreciation. Cost of land inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which can reasonably be expected to be sold within the five-year operating cycle of the land development business.

Development Land and Mortgages
Development land is stated at cost, including property taxes and interest on specific debt, and comprises land which is not expected to be sold within the five years subsequent to the balance sheet date.

Fixed Assets
Properties, plants and equipment are carried at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Investments
Portfolio securities are valued at the lower of aggregate cost or net realizable value.

Joint ventures are accounted for on the equity method with the company's share of income included in revenues.

Intangible Assets
Intangible assets arising from acquisitions include the excess of purchase price over the net book value of identifiable assets at the date of acquisition for business combinations prior to November 1, 1970 and the excess of purchase price over the fair value of identifiable net assets at the date of acquisition for business combinations subsequent to that date.

Amortization of amounts relating to acquisitions subsequent to November 1, 1970 is charged to income on the straight-line basis over forty years. Unamortized amounts are charged to income in the event of diminution in value.

Revenue Recognition
Revenues from the sale of manufactured products are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the earnings process is complete and collectibility of the proceeds is reasonably assured. Revenues from the sale of revenue properties are recorded net of the related cost.

2. AMALGAMATION OF SUBSIDIARIES

During 1978, the company amalgamated with several subsidiaries. These transactions resulted in the following assets and liabilities replacing the company's investment in the subsidiaries.

		(thousands of dollars)
Assets		
Net working capital		106,731
Development land, mortgages and properties		79,894
Investments		60,465
Fixed assets		45,316
		292,406
Liabilities		
Mortgages and debentures relating to development land and properties	33,277	
Long-term debt	2,943	
Deferred revenue	7,354	
Deferred income taxes	26,934	70,508
Net Tangible Assets		221,898
Post-acquisition earnings of subsidiaries		(83,027)
Excess of original purchase price over the net book value of assets of amalgamated subsidiaries accounted for on a purchase basis		5,893
Post-acquisition increase in contributed surplus of amalgamated subsidiaries		(136)
Elimination of Investment in Subsidiaries Amalgamated		$144,628

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. INVENTORIES

	1978	1977
	(thousands of dollars)	
Finished goods	15,314	9,856
Raw materials and supplies	23,099	9,063
Land	58,231	31,309
Maintenance and repair parts	7,973	5,267
	$104,617	$55,495

Land inventories include raw land of $45,121,000 at December 31, 1978 and $15,632,000 at December 31, 1977.

4. DEVELOPMENT LAND AND MORTGAGES

	1978	1977
	(thousands of dollars)	
Development land	41,894	21,095
Mortgages	26,533	1,037
	$68,427	$22,132

5. INVESTMENTS

	1978	1977
	(thousands of dollars)	
Subsidiaries - shares	197,164	157,745
- advances	212,285	94,175
	409,449	251,920
Portfolio securities - at cost	2,623	416
Joint ventures - at equity (Note 6)	6,347	-
Advances to stock purchase plan	9,139	7,581
	$427,558	$259,917

These financial statements have been prepared for purposes other than presentation to shareholders. The accounts of subsidiaries have not been consolidated herein nor has the company's proportion of the results of operations of subsidiaries been reflected in net income for the year. Information as to the current and past operations of subsidiaries is as follows:

(a) The company's proportion of aggregate net income of subsidiaries for the current year is $58,037,000.

(b) For the current year, dividends from subsidiaries of $11,385,000 are recorded as income by the company.

(c) After giving effect to the current year's amalgamation, the company's proportion of the aggregate undistributed net income of subsidiaries since their acquisition is $57,640,000 as at December 31, 1978.

(d) Unrealized inter-company net income, on transactions with and between subsidiaries was $5,093,000 as at December 31, 1978.

6. JOINT VENTURES

During 1978, the company either formed or acquired by amalgamation several non-consolidated joint ventures which are engaged primarily in land and housing activities.

The following is a summary of the net assets and operations of these investments:

(thousands of dollars)	
Net Assets Employed	
Current assets	94,445
Current liabilities	12,244
Working capital	82,201
Fixed assets, revenue property and land	111,241
	$193,442

(thousands of dollars)	
Financed By	
Long-term debt	132,503
Equity and advances by:	
Other partners	25,118
Subsidiaries of the company	15,869
The company	19,952
	$193,442

Operations	
Revenues	51,320
Expenses	37,862
Income before taxes	$ 13,458

Allocation of income	
Other partners	2,496
Subsidiaries of the company	5,881
The company	5,081
	$ 13,458

The company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet its principal and interest requirements on certain loans if the partnership is unable to do so from its own resources. These loans amount to U.S. $90,000,000 and Canadian $5,910,000 at 9.75%, mature in 1993 and require the following payments of principal over the next five years: 1979 - $852,000; 1980 - $837,000; 1981 - $816,000; 1982 - $525,000; 1983 - $5,725,000.

In general, liabilities of joint ventures are secured by pledges of the related assets and at December 31, 1978, assets exceeded liabilities in all joint ventures.

7. FIXED ASSETS

	1978		1977	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
	(thousands of dollars)			
Plant sites	7,934	-	3,877	-
Quarries and gravel deposits	8,491	1,840	5,694	1,002
Buildings	64,766	19,253	53,603	13,837
Machinery and equipment	248,885	86,556	154,278	40,055
	$330,076	$107,649	$217,452	$54,894

Included in 1978 depreciation expense is an amount of $9,000,000 reflecting the reduced utility of certain assets of the chemical division.

8. INTANGIBLE ASSETS

	1978	1977
	(thousands of dollars)	
Intangible assets arising from acquisitions	33,350	27,476
Debt discount	1,848	2,206
	$35,198	$29,682

Intangible assets have increased by $5,893,000 after the amalgamation of subsidiaries. Accumulated amortization amounted to $150,000 at December 31, 1978 and to $130,500 at the date of amalgamation.

9. SHORT-TERM BORROWINGS

	1978	1977
	(thousands of dollars)	
Bank advances	770	8,321
Short-term promissory notes	43,164	70,335
	$43,934	$78,656

Unsecured bank lines of credit amounted to $163,550,000 at December 31, 1978, including $75,000,000 maintained for the issue of short-term promissory notes authorized in the same amount.

10. LONG-TERM DEBT

	1978		1977	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
First mortgage sinking fund bonds 5-7/8% to 8% due to 1988........	515	11,533	270	11,812
Debentures -				
10% due to 1981 (U.S. $25,000,000)..................	1,200	30,000	1,100	27,500
10¼% due in 1980................	-	20,000	-	20,000
11-3/4% due to 1995.............	1,500	25,452	1,452	26,952
11¼% due to 1996................	2,500	50,000	2,500	50,000
6½% convertible due in 1988 (U.S. $14,400,000)...........	-	17,280	-	-
Term bank loans at prime rate plus 3/4% due in 1980................	-	30,000	-	30,000
6½% to 9½% mortgages on land due to 1989........................	9,403	18,807	1,657	4,912
11¼% note to a subsidiary company due to 1993.....................	-	83,000	-	66,200
Non-interest bearing to 10¼% due to 1990........................	987	5,134	757	4,295
	16,105	291,206	7,736	241,671
Current portion...............		16,105		7,736
	$16,105	$275,101	$7,736	$233,935

A portion of the properties, plants and equipment of the company and its subsidiaries is pledged as security for the first mortgage bonds. Debentures are secured by a floating charge on the assets of the company. Trust indentures pertaining to the first mortgage bonds and debentures contain restrictive covenants covering the issuance of additional debt and the payment of dividends.

Until the due date of a term bank loan in 1980, the company may repay all or any part without penalty and redraw up to a maximum amount of $50,000,000. At December 31, 1978, $30,000,000 of of short-term borrowings have been classified as a term bank loan.

The following payments are required in the next five years to meet long-term debt instalments and sinking fund provisions:

1979 - $16,105,000
1980 - $59,111,000
1981 - $34,420,000
1982 - $ 6,003,000
1983 - $ 9,764,000

11. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized -

5,000,000 preferred shares - without nominal or par value issuable in series of which 457,978 are designated as Series A \$1.10 cumulative convertible, 1,205,970 are designated as Series B \$1.20 non-cumulative convertible and 1,726,476 are designated as Series D \$1.50 cumulative convertible, all of which carry voting rights and are redeemable from \$20 to \$24 each subject to various conditions.

20,000,000 second preferred shares - without nominal or par value issuable in series of which 1,000,000 are designated as Series A cumulative non-voting and non-convertible at the stated value of U.S. \$100 each.

Common shares - an unlimited number without nominal or par value.

Issued and fully paid -	1978		1977	
	Shares	Amount	Shares	Amount
	(thousands)			
Preferred shares - Series A..........	7	143	8	157
- Series B..........	294	5,884	271	5,416
- Series C..........	-	-	43	863
- Series D..........	213	4,264	334	6,686
Second preferred shares -				
Series A (U.S. \$100,000,000).......	1,000	120,000	-	-
	1,514	130,291	656	13,122
Common shares.......................	13,416	183,370	12,877	172,571
Contributed surplus.................		7,194		6,812
	13,416	\$190,564	12,877	\$179,383

In accordance with the terms of issue on December 31, 1978, all issued and outstanding Series C preferred shares were converted to Series B preferred shares.

The Series A second preferred shares bear cumulative variable-rate dividends based primarily on the London Inter-Bank Offering Rate. As at December 31, 1978, the dividend rate was 6.53 per cent.

These shares are redeemable at U.S. \$103 and U.S. \$102 during the years ended October 31, 1980 and 1981 respectively and at the option of the holder the company will repurchase, at par, a maximum of 330,000 shares on each of November 1, 1986 and 1987 and any balance outstanding on November 1, 1988.

Common shares are shown after deducting 806,151 shares at their issue price of \$15 per share, which were received as a result of previous shareholdings in companies acquired.

11. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

The details of shares issued and fully paid are as follows:

	1978	1977
	(thousands)	
Preferred		
Beginning of year	656	1,338
Issued at $22.50 in exchange for shares of a subsidiary	98	58
	754	1,396
Converted at $20.00 to common shares	(240)	(740)
End of year	514	656
Second Preferred		
Issued in the year at U.S. $100.00	1,000	-
Common		
Beginning of year	12,877	11,885
Issued in the year -		
At $25.00 in exchange for shares of a subsidiary	-	60
At $20.00 on the conversion of preferred shares	240	740
At $7.90 to $34.60 under the purchase plan and on the exercise of options and warrants	299	192
End of year	13,416	12,877

Contributed Surplus

Contributed surplus increased by $246,000 during the year pursuant to the issue of Series D preferred shares at a premium of $2.50 per share and by $136,000 on the amalgamation of subsidiaries.

The following shares are reserved for issuance:

Preferred
157,050 Series D pursuant to the conversion of options and warrants granted by an amalgamated subsidiary.

Common	1978	1977
	(thousands of shares)	
At $20.00 for the conversion of preferred shares	671	1,031
At $9.78 to $31.50 for the exercise of options	48	256
At U.S. $32.00 for the conversion of debentures	450	-
	1,169	1,287

11. CAPITAL STOCK AND CONTRIBUTED SURPLUS (Continued)

Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90 per cent of market on the granting date. The details of outstanding options are as follows:

	1978		
	Options held by		
	Directors & Officers	Others	Option Price
	(thousands)		
Beginning of year	24	7	\$ 9.78 to \$23.97
Granted	16	3	\$24.60 to \$31.50
Exercised	-	(2)	\$13.05 to \$16.54
End of year	40	8	\$ 9.78 to \$31.50

	1977		
	Options held by		
	Directors & Officers	Others	Option Price
	(thousands)		
Beginning of year	18	14	\$ 7.90 to \$16.54
Granted	6	1	\$23.97
Exercised	-	(8)	\$ 7.90 to \$16.54
End of year	24	7	\$ 9.78 to \$23.97

Stock Purchase Plan

Under the terms of the stock purchase plan trustees have purchased, at a price equal to approximately 99 per cent of market and hold 300,750 common shares for the benefit of employees who are directors or officers and 139,450 common shares for the benefit of other employees. The participants pay for the common shares over a period of seven years together with interest calculated at 5 per cent per annum. The shares are held as security by the trustees until full payment has been received.

12. FORMATION OF PARTNERSHIP

During 1978, the company invested in Alberta Land Development Company, a land development partnership, by contributing land inventory and long-term development land with a book value of $21,933,000 and accounts receivable of $30,000,000 in return for a partnership interest of $114,100,000 which was reduced by a subsequent cash withdrawal of $114,075,000. The resultant deferred revenue of $62,167,000 is recognized as income by the company as the partnership land is sold to third parties.

This investment resulted in the following changes in financial position: (thousands of dollars)

Source of Funds	
Development land contributed to partnership..............	$ 7,981
Deferred revenue resulting from contribution of land......	62,167
	70,148
Application of Funds	
Investment in partnership................................	25
Increase in working capital..............................	$70,123

13. ADDITIONAL INFORMATION

Prices and Income Controls
The Canadian operations of the company were subject to the Anti-Inflation Act (Canada) and its regulations under which selling prices, margins, dividends and compensation were restrained until December 31, 1978. The company has complied with the controls.

Retirement Plans
Retirement plans exist under which employees are eligible to participate after varying years of employment and are eligible for benefits at age 65. Contributions to plans for salaried and hourly employees charged to income were $1,100,000 in 1978 and $1,650,000 in 1977, including prior service costs. An unfunded liability of approximately $2,575,000 at December 31, 1978 is being funded and charged to income over periods up to fifteen years.

Restatement of Comparative Figures
Certain 1977 amounts have been restated to conform with 1978 presentation.

Commitments and Contingent Liabilities
Outstanding commitments relating to the construction of plants and the purchase of equipment amount to approximately $18,000,000 at December 31, 1978.

The company has guaranteed substantially all of the authorized bank lines of credit of its subsidiaries amounting to $204,250,000, of which approximately $145,800,000 were utilized at December 31, 1978.

Litigation
In 1978 Genstar acquired, through open market purchases by a fully-owned subsidiary, more than 21.5 per cent of the outstanding Common Shares of The Flintkote Company. In October 1978 The Flintkote Company commenced an action claiming that these purchases violated the U.S. anti-trust and securities laws and seeking, among other remedies, to force Genstar to sell the shares. The

13. ADDITIONAL INFORMATION (Continued)

Federal Trade Commission is also investigating the acquisition of the Flintkote shares. Management believes that the allegations are without foundation and has commenced to defend its position and move toward adjudication of these claims at the first possible opportunity.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1978 and 1977
(thousands of Canadian dollars)

	NOTE REFERENCE	1978	1977
	15		(restated)
Revenues		**1,143,042**	981,078
Costs and Expenses			
Cost of sales and services		**778,054**	677,934
Selling, general and administrative		**116,267**	98,193
Depreciation, depletion and amortization	6	**50,181**	34,691
Interest on long-term debt		**26,036**	30,711
Other interest		**23,896**	18,519
		994,434	860,048
Income Before Income Taxes		**148,608**	121,030
Provision for income taxes	13		
Current		**40,300**	45,700
Deferred		**26,700**	10,900
		67,000	56,600
Net Income for the Year		**$ 81,608**	$ 64,430

		NOTE REFERENCE	1978	1977
Net Income per Common Share		14		
Canadian Method	Basic		**$ 6.03**	$ 5.06
	Fully diluted		**5.74**	4.65
United States Method	Primary		**6.01**	5.01
	Fully diluted		**5.89**	4.73

CONSOLIDATED BALANCE SHEETS

As at December 31, 1978 and 1977
(thousands of Canadian dollars)

	NOTE REFERENCE	1978	1977
Assets			
Current Assets			
Cash and term deposits		**12,863**	14,215
Accounts receivable		**278,075**	238,316
Net assets held for sale	1	**22,277**	—
Inventories	2	**462,372**	330,144
		775,587	582,675
Development Land and Properties	3	**110,014**	165,018
Investments	4	**187,817**	47,527
Fixed Assets	6		
Properties, plants and equipment		**626,429**	671,762
Accumulated depreciation and depletion		**243,397**	254,416
		383,032	417,346
Intangible Assets	7	**36,250**	36,654
		$1,492,700	$1,249,220

On behalf of the Board

Director Angus A. MacNaughton

Director

	NOTE REFERENCE	1978	1977
Liabilities			
Current Liabilities			
Short-term borrowings	8	**169,738**	153,087
Accounts payable		**171,037**	153,807
Income taxes	13	**36,432**	31,191
Advances relating to housing and land inventories	9	**103,818**	91,184
Current portion of debt	10	**25,976**	44,898
		507,001	474,167
Mortgages and Debentures Relating to Development Land and Properties	10	**18,436**	74,174
Long-Term Debt	10	**218,109**	244,043
Deferred Revenue	12	**77,756**	—
Deferred Income Taxes	13	**115,300**	88,607
		936,602	880,991
Shareholders' Equity			
Preferred Shares	11	**130,291**	13,122
Common Shares and Contributed Surplus	11	**180,196**	169,151
Retained Earnings		**245,611**	185,956
		556,098	368,229
		$1,492,700	$1,249,220

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1978 and 1977
(thousands of Canadian dollars)

	NOTE REFERENCE	1978	1977
Source of Funds			
Net income for the year		**81,608**	64,430
Items not affecting funds			
Depreciation, depletion and amortization	6	**50,181**	34,691
Gain on sales of revenue properties and fixed assets		**(10,279)**	(1,687)
Deferred income taxes	13	**26,700**	10,900
Gain on sales of investments		**(24,849)**	(3,291)
Deferred revenue		**(12,223)**	—
Other		**5,056**	3,552
Funds from operations		**116,194**	108,595
Formation of partnership	12	**97,713**	—
Sale or reduction of			
Investments		**30,098**	17,066
Fixed assets		**44,798**	4,605
Development land and properties		**76,641**	42,889
Issue of			
Mortgages, debentures and long-term debt		**77,291**	40,629
Capital stock		**128,214**	6,968
		570,949	220,752
Application of Funds			
Purchase of			
Investments		**136,448**	21,357
Fixed assets		**52,832**	107,109
Development land and properties		**43,612**	27,766
Payment or reduction of			
Mortgages, debentures and long-term debt		**156,026**	47,369
Dividends		**21,953**	18,776
Acquisition of subsidiary		**—**	4,538
		410,871	226,915
Working Capital			
Increase (Decrease) for the year		**160,078**	(6,163)
At beginning of year		**108,508**	114,671
At end of year		**$ 268,586**	$ 108,508

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Continued)

	1978	1977
Changes in Elements of Working Capital		
Current assets *Increase (Decrease)*		
Cash and term deposits	**(1,352)**	1,204
Accounts receivable	**39,759**	49,460
Net assets held for sale	**22,277**	—
Inventories	**132,228**	18,491
Revenue properties	**—**	(100,507)
	192,912	(31,352)
Current liabilities *Increase (Decrease)*		
Short-term borrowings	**16,651**	14,938
Accounts payable	**17,230**	18,244
Income taxes	**5,241**	(4,141)
Advances relating to housing and land inventories	**12,634**	5,274
Mortgages relating to revenue properties	**—**	(77,897)
Current portion of debt	**(18,922)**	18,393
	32,834	(25,189)
Increase (Decrease) in Working Capital for the Year	**$ 160,078**	$ (6,163)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the years ended December 31, 1978 and 1977
(thousands of Canadian dollars)

	1978	1977
Balance — beginning of year	**185,956**	140,302
Net income for the year	**81,608**	64,430
	267,564	204,732
Dividends — preferred shares	**717**	950
— common shares	**21,236**	17,826
	21,953	18,776
Balance — end of year	**$ 245,611**	$ 185,956

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the years ended December 31, 1978 and 1977

The following accounting policies conform with those prescribed as generally accepted in both Canada and the United States.

Consolidation
Subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting. Financial services subsidiaries are accounted for on the equity method.

Investments in companies in which ownership is significant and investments in joint ventures are accounted for on the equity method with the company's share of income included in revenues.

Foreign Exchange
Accounts in foreign currencies are translated into Canadian dollars. Monetary assets and liabilities, including long-term debt, are translated at the current rate, non-monetary assets and liabilities, including inventories, at historical rates, and the resulting exchange gains or losses are included in income.

Interest Costs
Interest costs related to housing and land development inventories and the construction of fixed assets are charged to income as incurred. Interest costs related to specific debt used to finance long-term development land are capitalized.

Inventories
Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally on the first-in first-out basis and includes all overhead elements except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which can be reasonably expected to be sold within the five-year operating cycle of the land development business.

Development Land and Properties
Development land is stated at cost, including property taxes and interest on specific debt, and comprises land which is not expected to be sold within the five years subsequent to the balance sheet date.

Fixed Assets
Properties, plants and equipment are carried at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Investments
Portfolio securities are valued at the lower of aggregate cost or net realizable value.

Intangible Assets
Intangible assets arising from acquisitions include the excess of purchase price over the net book value of identifiable assets at the date of acquisition for business combinations prior to November 1, 1970 and the excess of purchase price over the fair value of identifiable net assets at the date of acquisition for business combinations subsequent to that date.

Amortization of amounts relating to acquisitions subsequent to November 1, 1970 is charged to income on the straight-line basis over forty years. Unamortized amounts are charged to income in the event of diminution in value.

Revenue Recognition
Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Revenues from the sale of revenue properties are recorded net of the related cost.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1978 and 1977

1. Net Assets held for Sale

A contract was signed in 1978 for the sale of the company's cement and building materials assets in Eastern Canada, subject to certain legal and operating conditions. At the date of this report, the sale had not been completed but is expected to close in the first half of 1979. Under the terms of the contract, the purchaser will buy fixed assets of these operations for a consideration of $32,558,000 and will assume related long-term debt of $10,281,000, the net amount of which has been classified as net assets held for sale.

2. Inventories

	1978	1977
	(thousands of dollars)	
Finished goods	**39,714**	25,286
Work in process	**107,982**	101,322
Raw materials and supplies	**29,384**	32,525
Land	**274,219**	157,654
Maintenance and repair parts	**11,073**	13,357
	$462,372	$330,144

Land inventories include raw land of $189,796,000 at December 31, 1978 and $71,619,000 at December 31, 1977.

3. Development Land and Properties

	1978	1977
	(thousands of dollars)	
Development land	**76,219**	94,484
Mortgages and loans receivable	**33,795**	34,145
Revenue properties	**—**	36,389
	$110,014	$165,018

4. Investments

	1978	1977
	(thousands of dollars)	
Portfolio securities — at cost	**50,087**	21,521
Non-consolidated financial services subsidiaries — at equity (Note 5)	**21,250**	—
Joint ventures — at equity (Note 5)	**45,406**	18,425
Investment in The Flintkote Company — at equity (Note 15)	**61,935**	—
Advances to stock purchase plan	**9,139**	7,581
	$187,817	$ 47,527

Portfolio securities include marketable shares of $33,040,000 at December 31, 1978 and $11,260,000 at December 31, 1977 with market values of $48,000,000 and $15,000,000 respectively.

Included in investments is approximately $13,000,000, relating primarily to the excess of the cost of financial services subsidiaries over the fair value of identifiable assets at acquisition, which is being charged to income on a straight-line basis over forty years.

5. Joint Ventures and Non-Consolidated Subsidiaries

The company has several non-consolidated financial services subsidiaries and is a partner in a number of incorporated and unincorporated joint ventures which are engaged primarily in land and housing, construction and financial services activities. The following is a summary of the net assets and operations of these investments.

	Financial Services Subsidiaries	Joint Ventures	
	1978	**1978**	1977
	(thousands of dollars)		
Net assets employed			
Current assets	**18,341**	**305,149**	138,091
Current liabilities	**21,173**	**198,221**	101,988
Working capital	**(2,832)**	**106,928**	36,103
Fixed assets, revenue properties, land and other	**22,838**	**166,533**	121,339
	$ 20,006	**$273,461**	$157,442
Financed by			
Long-term debt and other	**10,521**	**161,262**	85,567
Equity and advances by other partners	**—**	**44,531**	31,368
Equity and advances by the company	**9,485**	**67,668**	40,507
	$ 20,006	**$273,461**	$157,442
Operations			
Revenues	**1,716**	**209,792**	190,264
Expenses	**1,606**	**168,312**	166,493
Income before taxes	**$ 110**	**$ 41,480**	$ 23,771
Allocation of income			
Other partners	**—**	**18,149**	14,221
Company	**110**	**23,331**	9,550
	$ 110	**$ 41,480**	$ 23,771

The summary of net assets and operations for 1978 excludes several marine and revenue property joint ventures which have been sold. Included in the 1977 summary are net assets employed of $82,481,000, long-term debt of $62,335,000 and the company's share of income before taxes of $3,231,000 related to these ventures.

As a general partner in certain unincorporated ventures the company is contingently liable for the other partners' share of liabilities of $43,000,000 and as a limited partner in other ventures is guarantor of partnership liabilities of $50,000,000.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet its principal and interest requirements on certain loans if the partnership is unable to do so from its own resources. These 9.75 per cent loans amount to U.S. $90,000,000 and Canadian $5,910,000, mature in 1993 and require the following payments of principal over the next five years: 1979 — $852,000; 1980 — $837,000; 1981 — $816,000; 1982 — $525,000; 1983 — $5,725,000.

In general, liabilities of joint ventures are secured by pledges of the related assets and at December 31, 1978, assets exceeded liabilities in all joint ventures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6. Fixed Assets

	1978		1977	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	**16,176**	**—**	16,918	—
Quarries and gravel deposits	**15,261**	**3,286**	26,190	3,703
Buildings	**93,669**	**43,637**	109,207	35,431
Machinery and equipment	**501,323**	**196,474**	519,447	215,282
	$626,429	**$243,397**	$671,762	$254,416

Included in 1978 depreciation expense is an amount of $13,000,000 reflecting the reduced utility of certain assets in the chemical and marine divisions.

7. Intangible Assets

	1978	1977
	(thousands of dollars)	
Intangible assets arising from acquisitions	**34,386**	34,474
Debt discount	**1,864**	2,180
	$ 36,250	$ 36,654

Intangible assets arising from acquisitions subsequent to November 1, 1970 amounted to $2,672,000. Accumulated amortization thereon amounted to $534,000 at December 31, 1978 and to $446,000 at December 31, 1977.

8. Short-Term Borrowings

	1978	1977
	(thousands of dollars)	
Bank advances	**126,574**	82,752
Short-term promissory notes	**43,164**	70,335
	$169,738	$153,087

Bank lines of credit at December 31, 1978 amounted to $367,800,000, including $75,000,000 maintained for the issue of short-term promissory notes authorized in the same amount. Commitment fees on the bank lines are not material. Average short-term borrowings outstanding amounted to $176,000,000 during 1978 and $176,700,000 during 1977 and the maximum outstanding at any month-end was $227,500,000 in 1978 and $207,700,000 in 1977. Short-term borrowings bear interest at rates which approximate prime lending rates.

9. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is $41,797,000 at December 31, 1978 and $41,467,000 at December 31, 1977 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of $62,021,000 at December 31, 1978 and $49,717,000 at December 31, 1977 represent financing on residential houses included in work in process and finished goods inventories, which will be assumed by the purchasers of the houses upon their completion and sale.

10. Mortgages, Debentures and Long-Term Debt

	1978		1977	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Mortgages and debentures relating to development land and properties				
Mortgages				
7½% to 9½% due to 2008 on revenue properties	—	—	280	26,147
6½% to 9½% due to 1989 on development land	**2,753**	**21,189**	14,253	46,377
Debentures				
9% called in 1979	**7,036**	**7,036**	300	9,392
7¾% convertible subordinated redeemed or converted in 1978	—	—	—	7,091
	9,789	**28,225**	14,833	89,007
Current portion	—	**9,789**	—	14,833
	$ 9,789	**$ 18,436**	$ 14,833	$ 74,174
Long-term debt				
First mortgage sinking fund bonds				
5⅞% to 8% due to 1992	**1,550**	**15,906**	2,244	31,674
Debentures				
10% due to 1981 (U.S. $25,000,000)	**1,200**	**30,000**	1,100	27,500
10¼% due in 1980	—	**20,000**	—	20,000
11¾% due to 1995	**1,500**	**25,452**	1,452	26,952
11¼% due to 1996	**2,500**	**50,000**	2,500	50,000
6½% convertible due in 1988 (U.S. $14,400,000)	—	**17,280**	—	—
Term bank loans at prime rates plus ¾% to 1¼% due to 1992 (including U.S. $5,800,000)	**7,069**	**63,762**	14,012	97,206
Non-interest bearing to 14% notes and mortgages due to 1993	**2,368**	**11,896**	8,757	20,776
	16,187	**234,296**	30,065	274,108
Current portion	—	**16,187**	—	30,065
	$ 16,187	**$218,109**	$ 30,065	$244,043
Total current portion	**$ 25,976**		$ 44,898	

A portion of the properties, plants and equipment is pledged as security for the first mortgage bonds and a term bank loan of $6,500,000. Debentures are secured by a floating charge on the assets of the company.

Trust indentures pertaining to the first mortgage bonds and debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends.

Included in term bank loans is $50,000,000 due in 1980. Under the terms of this loan, the company may repay all or any part without penalty and redraw up to the maximum

amount. At December 31, 1978, $50,000,000 of short-term borrowings have been classified as term bank loans.

The following payments are required in the next five years to meet long-term debt instalment, sinking fund and purchase fund provisions:

	Mortgages and Debentures	Long-term Debt
	(thousands of dollars)	
1979	$ 9,789	$16,187
1980	1,822	80,156
1981	1,698	34,944
1982	8,164	6,757
1983	4,723	6,601

11. Capital Stock and Contributed Surplus

Authorized

5,000,000 preferred shares — without nominal or par value issuable in series of which 457,978 are designated as Series A $1.10 cumulative convertible, 1,205,970 are designated as Series B $1.20 non-cumulative convertible and 1,726,476 are designated as Series D $1.50 cumulative convertible, all of which carry voting rights and are redeemable from $20 to $24 each subject to various conditions.

20,000,000 second preferred shares — without nominal or par value issuable in series of which 1,000,000 are designated as Series A cumulative non-voting and non-convertible of the stated value of U.S. $100 each.

Common shares — an unlimited number without nominal or par value.

Issued and Fully Paid

	1978		1977	
	Shares	Amount	Shares	Amount
		(thousands)		
Preferred shares — Series A	**7**	**143**	8	157
— Series B	**294**	**5,884**	271	5,416
— Series C	**—**	**—**	43	863
— Series D	**213**	**4,264**	334	6,686
Second preferred shares — Series A (U.S. $100,000,000)	**1,000**	**120,000**	—	—
	1,514	**$130,291**	656	$ 13,122
Common shares	**13,416**	**172,027**	12,877	161,228
Contributed surplus		**8,169**		7,923
	13,416	**$180,196**	12,877	$169,151

In accordance with the terms of issue, on December 31, 1978 all issued and outstanding Series C preferred shares were converted to Series B preferred shares.

The Series A second preferred shares bear cumulative variable-rate dividends based primarily on the London Inter-Bank Offering Rate. As at December 31, 1978, the dividend rate was 6.53 per cent. These shares are redeemable at U.S. $103 and U.S. $102 during the years ended October 31, 1980 and 1981 respectively and at par thereafter. At the option of the holder, the company will repurchase, at par, a maximum of 330,000 shares on each of November 1, 1986 and 1987 and any balance outstanding on November 1, 1988.

Common shares are shown after deducting 806,151 shares at their issue price of $15 per share, which were received as a result of previous shareholdings in companies acquired.

The details of shares issued and fully paid are as follows:	1978	1977
	(thousands of shares)	
Preferred		
Beginning of year	**656**	1,338
Issued at $22.50 in exchange for shares of a subsidiary	**98**	58
	754	1,396
Converted at $20.00 to common shares	**(240)**	(740)
End of year	**514**	656
Second Preferred		
Issued in the year at U.S. $100.00	**1,000**	—
Common		
Beginning of year	**12,877**	11,885
Issued in the year —		
At $25.00 in exchange for shares of a subsidiary	**—**	60
At $20.00 on the conversion of preferred shares	**240**	740
At $7.90 to $34.60 under the purchase plan and on the exercise of options and warrants	**299**	192
End of year	**13,416**	12,877

Contributed Surplus

Contributed surplus increased by $246,000 during the year pursuant to the issue of Series D preferred shares at a premium of $2.50 per share.

The following shares are reserved for issuance:

Preferred

157,050 Series D pursuant to the conversion of options and warrants granted by an amalgamated subsidiary.

Common	1978	1977
	(thousands of shares)	
At $20.00 for the conversion of preferred shares	**671**	1,031
At $9.78 to $31.50 for the exercise of options	**48**	256
At U.S. $32.00 for the conversion of debentures	**450**	—
	1,169	1,287

Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90 per cent of market on the granting date. The details of outstanding options are as follows:

	1978			1977		
	Options held by			Options held by		
	Directors & Officers	Others	Option Price	Directors & Officers	Others	Option Price
	(thousands of shares)			(thousands of shares)		
Beginning of year	**24**	**7**	**$ 9.78 to $23.97**	18	14	$ 7.90 to $16.54
Granted	**16**	**3**	**$24.60 to $31.50**	6	1	$23.97
Exercised	**—**	**(2)**	**$13.05 to $16.54**	—	(8)	$ 7.90 to $16.54
End of year	**40**	**8**	**$ 9.78 to $31.50**	24	7	$ 9.78 to $23.97

Stock Purchase Plan

Under the terms of the stock purchase plan trustees have purchased, at a price equal to approximately 99 per cent of market and hold 300,750 common shares for the benefit of employees who are directors or officers and 139,450 common shares for the benefit of other employees. The participants pay for the common shares over a period of seven years together with interest calculated at 5 per cent per annum. The shares are held as security by the trustees until full payment has been received.

12. Formation of Partnership

During 1978, the company invested in Alberta Land Development Company, a land development partnership, by contributing land inventory and long-term development land with a book value of $48,980,000 less specific debt of $7,700,000 in return for a partnership interest of $131,259,000 which was reduced by a subsequent cash withdrawal of $116,758,000. The resultant deferred revenue of $89,979,000 is recognized as income by the company as the partnership land is sold to third parties.

This investment resulted in the following changes in financial position:
(thousands of dollars)

Source of Funds		Application of Funds	
Development land contributed to partnership	**25,870**	Mortgages transferred to partnership	**3,635**
Deferred revenue resulting from contribution of land	**89,979**	Investment in and loans to partnership	**14,501**
			18,136
		Increase in working capital	**97,713**
	$115,849		**$115,849**

13. Income Taxes

The components of the provision for income taxes are as follows:

	1978	1977
	(thousands of dollars)	
Current		
Canadian — Federal	**18,800**	26,600
— Provincial	**8,800**	10,400
United States and other	**12,700**	8,700
	$ 40,300	$ 45,700
Deferred		
Canadian — Federal	**14,300**	7,400
— Provincial	**4,900**	2,900
United States and other	**7,500**	600
	$ 26,700	$ 10,900

The sources of long-term differences between income for financial statement purposes and tax purposes are as follows:

	1978	1977
	(thousands of dollars)	
Excess depreciation for tax purposes	**19,300**	9,300
Investment gains unrealized for tax purposes	**5,900**	—
Prior years' losses applied to reduce taxable income	—	600
Other	**1,500**	1,000
	$ 26,700	$ 10,900

A reconciliation of the company's effective income tax rates to the normal federal income tax rate is as follows:

	1978	1977
Canadian federal income tax rate	**46.0%**	46.0%
Federal tax incentives for manufacturing and processing	**(3.0)**	(1.5)
Provincial income taxes, net of federal abatement	**4.1**	2.6
Reduced rate on capital gains	**(5.5)**	(1.9)
Non-taxable foreign losses and exchange translation losses	**3.4**	3.0
Other	**.1**	(1.4)
Effective income tax rates	**45.1%**	46.8%

No significant decrease in deferred income taxes payable is anticipated within the next three years. Provisions have not been made for Canadian income taxes on undistributed active business earnings of foreign subsidiaries inasmuch as such earnings are being reinvested in foreign operations.

14. Net Income per Common Share

The weighted average number of shares used in calculating net income per common share is as follows:

	Canadian		United States	
	1978	1977	1978	1977
	(thousands of shares)			
Basic and Primary				
Weighted average common shares	**13,188**	12,556	**13,188**	12,556
Shares pertaining to stock options	—	—	**60**	111
	13,188	12,556	**13,248**	12,667
Fully Diluted				
Weighted average common shares	**13,188**	12,556	**13,188**	12,556
Shares pertaining to				
— conversion of debt	**38**	214	**38**	214
— conversion of preferred shares	**557**	771	**557**	771
— options and warrants	**262**	465	**84**	150
	14,045	14,006	**13,867**	13,691

Basic and primary income per common share have been calculated after reducing net income by $717,000 in 1978 and $950,000 in 1977 being the dividends on Series A, B and D preferred shares and $1,313,000 in 1978 on Series A, second preferred shares.

Net income used in determining fully diluted income per common share has been increased by $39,000 in 1978 and $284,000 in 1977 being the after tax effect of interest on debt assumed to be converted. Net income was further increased for purposes of calculating Canadian fully diluted income per common share by $244,000 in 1978 and $436,000 in 1977 to give effect to an imputed return of five per cent on funds which would have been available on the exercise of options and warrants.

15. Additional Information

Prices and Incomes Controls
The Canadian operations of the company were subject to the Anti-Inflation Act (Canada) and its regulations under which selling prices, margins, dividends and compensation were restrained until December 31, 1978. The company has complied with the controls.

Retirement Plans
Retirement plans exist under which employees are eligible to participate after varying years of employment and are eligible for benefits at age 65. Contributions to plans for salaried and hourly employees charged to income were $3,000,000 in 1978 and $3,500,000 in 1977, including prior service costs. An unfunded liability of approximately $4,500,000 at December 31, 1978 is being funded and charged to income over periods up to fifteen years.

Restatement of Comparative Figures
Certain 1977 amounts have been restated to conform with 1978 presentation and to reflect on the equity method of accounting the operations of the import-export division which were sold for book value in early 1978.

Capitalized Interest Costs
Interest costs on specific debt associated with the holding and development of long-term land are capitalized in order to achieve a better matching of costs and revenues. Had these interest costs been expensed as incurred, net income for 1978 and 1977 would have been reduced by approximately $900,000 and $500,000 respectively.

Commitments and Contingent Liabilities
Outstanding commitments relating to the construction of plants and the purchase of equipment amount to approximately $23,000,000 at December 31, 1978.

Litigation
In 1978 Genstar acquired through open market purchases more than 21.5 per cent of the outstanding Common Shares of The Flintkote Company. In October 1978 The Flintkote Company commenced an action claiming that these purchases violated the U.S. antitrust and securities laws and seeking, among other remedies, to force Genstar to sell the shares. The Federal Trade Commission is also investigating the acquisition of the Flintkote shares. Management believes that the allegations are without foundation and has commenced to defend its position and move toward adjudication of these claims at the first possible opportunity.

At December 31, 1978, the company's proportionate share of the book value of The Flintkote Company approximates the equity value of the investment. The market value of the company's investment at the year-end is approximately U.S. $41,500,000. The following is a summary of the December 31, 1978 net assets and operations of The Flintkote Company:

	(thousands of U.S. dollars)
ASSETS	
Current	219,913
Fixed assets, investments and other	341,671
	$551,584
LIABILITIES	
Current	98,383
Long-term	184,823
	283,206
SHAREHOLDERS' EQUITY	268,378
	$551,584
REVENUES	731,982
EXPENSES	694,261
NET INCOME	$ 37,721

16. Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	December 31	
	(thousands of dollars)				
1978 —					
Revenues	$ 184,987	$ 280,007	$ 310,727	$ 367,321	$1,143,042
Gross profit	61,689	79,628	96,101	127,570	364,988
Net income	9,469	19,865	22,415	29,859	81,608
Net income per common share					
— Basic	$ 0.72	$ 1.50	$ 1.68	$ 2.13	$ 6.03
— Primary	0.71	1.50	1.67	2.13	6.01
Market Price (TSE)					
— High	$ 28.00	$ 30.88	$ 33.63	$ 38.00	$ 38.00
— Low	25.63	26.00	29.00	32.50	25.63
Trading Volume	540,425	698,341	699,253	963,748	2,901,767

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	December 31	
	(thousands of dollars)				
1977 —					
Revenues (restated)	$ 184,363	$ 263,803	$ 242,932	$ 289,980	$ 981,078
Gross profit (restated)	62,635	78,421	82,605	79,483	303,144
Net income	8,906	18,182	20,309	17,033	64,430
Net income per common share					
— Basic	$ 0.70	$ 1.44	$ 1.61	$ 1.31	$ 5.06
— Primary	0.69	1.42	1.59	1.31	5.01
Market Price (TSE)					
— High	$ 24.50	$ 25.75	$ 27.63	$ 27.63	$ 27.63
— Low	22.50	22.38	25.00	25.25	22.38
Trading Volume	377,371	496,373	531,377	450,942	1,856,063

RESULTS BY INDUSTRIAL CATEGORY

For the five years ended December 31, 1978
(millions of Canadian dollars)
(restated)

		REVENUES		
		Third Party	Inter-Category	Total
Building Materials				
Production of ready-mix concrete, concrete blocks, concrete pipe, sand, gravel, classified aggregates, lightweight aggregates, precast concrete structural and architectural components, precast concrete railway ties and gypsum wallboard.	1978	$234.5	$ 16.2	**$250.7**
	1977	220.6	18.9	**239.5**
	1976	205.3	17.1	**222.4**
	1975	177.9	14.4	**192.3**
	1974	164.3	13.7	**178.0**
Cement				
Manufacture of normal portland cement, oilwell cement, high early strength cement, masonry cement, sulphate resistant cement and special potash cement.	1978	$119.0	$ 39.0	**$158.0**
	1977	97.0	36.6	**133.6**
	1976	90.3	37.6	**127.9**
	1975	80.5	30.9	**111.4**
	1974	60.5	28.2	**88.7**
Housing and Land Development				
Construction of single-family, duplex and townhouse units; manufacture of pre-assembled sections and component packages for the construction of residential units; condominium conversions; development of residential, commercial and industrial land; shopping center development.	1978	$404.1	$ —	**$404.1**
	1977	372.7	.2	**372.9**
	1976	245.9	.4	**246.3**
	1975	156.3	—	**156.3**
	1974	115.9	—	**115.9**
Construction				
Installation of municipal utility services including water, sewer and lighting systems, street and road construction and paving, artificial lakes, townsite development. Construction of hydro-electric dams, generating stations, transmission lines, highways, bridges, airports, major industrial plants and installations, and mine site development.	1978	$142.8	$ 27.4	**$170.2**
	1977	104.0	60.7	**164.7**
	1976	121.3	31.2	**152.5**
	1975	123.6	22.8	**146.4**
	1974	116.7	26.5	**143.2**
Marine				
Tug and barge transportation, ferrying, berthing, lighterage, salvage, pollution control, shipbuilding and ship repairs, specialized ocean and river transportation. Marine transportation worldwide of heavy lift and modular cargo, lighterage, and land transportation.	1978	$ 86.4	$ 1.1	**$ 87.5**
	1977	68.6	.6	**69.2**
	1976	62.0	.4	**62.4**
	1975	61.3	.2	**61.5**
	1974	50.8	.3	**51.1**
Financial Services				
Mortgage banking; rental of electronic test and measurement equipment; real estate joint venture financing; venture capital investment; thrift and loan operations; title insurance and escrow services; property and casualty insurance; marine financing.	1978	$ 60.7	$ —	**$ 60.7**
	1977	20.9	—	**20.9**
	1976	16.3	—	**16.3**
	1975	8.8	—	**8.8**
	1974	4.2	—	**4.2**
Investments				
Manufacture of nitrogen-based chemicals and fertilizers; equity investment in The Flintkote Company; operation and sale of commercial and residential properties in 1976 through 1978; import and export of semi-finished metals and industrial minerals until early 1978.	1978	$ 95.5	$ —	**$ 95.5**
	1977	97.3	—	**97.3**
	1976	80.4	—	**80.4**
	1975	75.9	—	**75.9**
	1974	66.0	—	**66.0**

Cost of Sales	COSTS AND EXPENSES Selling, General and Administrative	Depreciation, Depletion and Amortization	Total	**Operating Income**	Interest and General Corporate Expenses	Income before Income Taxes	Provision for Income Taxes	**Net Income**	Net Assets	**Return on Net Assets (per cent)**
$188.8	$ 16.8	$ 9.3	$214.9	**$ 35.8**	$ 7.4	$ 28.4	$ 9.8	**$ 18.6**	$148.2	**14.4**
178.6	16.5	9.2	204.3	**35.2**	6.3	28.9	11.6	**17.3**	151.2	**13.0**
166.5	15.8	7.9	190.2	**32.2**	5.7	26.5	11.4	**15.1**	145.0	**12.1**
143.7	11.4	6.7	161.8	**30.5**	5.3	25.2	11.0	**14.2**	134.1	**12.2**
136.8	12.3	6.3	155.4	**22.6**	4.9	17.7	8.7	**9.0**	121.4	**8.9**
$113.3	$ 11.4	$ 6.6	$131.3	**$ 26.7**	$ 9.4	$ 17.3	$ 6.7	**$ 10.6**	$203.5	**6.9**
92.4	11.2	5.8	109.4	**24.2**	6.2	18.0	7.2	**10.8**	183.3	**7.2**
86.0	10.8	6.0	102.8	**25.1**	3.9	21.2	9.1	**12.1**	111.4	**12.3**
77.6	7.4	5.8	90.8	**20.6**	3.1	17.5	7.4	**10.1**	81.1	**13.9**
58.4	6.8	4.9	70.1	**18.6**	3.1	15.5	7.8	**7.7**	77.7	**11.5**
$253.7	$ 36.5	$ 1.5	$291.7	**$112.4**	$ 38.2	$ 74.2	$ 35.1	**$ 39.1**	$497.1	**11.2**
264.1	31.2	.9	296.2	**76.7**	31.6	45.1	22.6	**22.5**	434.1	**8.2**
162.9	21.0	1.0	184.9	**61.4**	21.7	39.7	20.3	**19.4**	390.6	**7.7**
107.1	19.1	.8	127.0	**29.3**	11.0	18.3	10.1	**8.2**	164.2	**8.2**
82.5	11.3	.6	94.4	**21.5**	7.8	13.7	7.3	**6.4**	118.4	**8.1**
$160.7	$ 7.9	$ 6.3	$174.9	**$ (4.7)**	$ 2.1	$ (6.8)	$ (3.4)	**$ (3.4)**	$ 41.0	**(6.3)**
138.8	8.1	5.8	152.7	**12.0**	1.7	10.3	4.8	**5.5**	36.4	**16.8**
124.6	9.0	6.5	140.1	**12.4**	1.6	10.8	5.3	**5.5**	36.9	**16.8**
127.0	5.5	6.6	139.1	**7.3**	1.9	5.4	2.7	**2.7**	32.1	**10.9**
128.4	4.9	6.4	139.7	**3.5**	2.2	1.3	.7	**.6**	43.8	**3.2**
$ 65.1	$ 5.8	$ 11.7	$ 82.6	**$ 4.9**	$ 6.8	$ (1.9)	$ 5.1	**$ (7.0)**	$ 87.2	**(4.8)**
46.7	5.3	6.8	58.8	**10.4**	6.7	3.7	3.8	**(0.1)**	103.1	**2.4**
42.4	4.1	5.1	51.6	**10.8**	5.5	5.3	1.9	**3.4**	94.8	**6.3**
45.0	5.5	4.2	54.7	**6.8**	3.8	3.0	.2	**2.8**	76.7	**5.9**
36.1	2.8	3.5	42.4	**8.7**	2.9	5.8	2.9	**2.9**	53.1	**7.7**
$ 15.6	$ 7.9	$ .2	$ 23.7	**$ 37.0**	$ 3.2	$ 33.8	$ 13.1	**$ 20.7**	$ 92.2	**23.5**
9.0	1.1	.2	10.3	**10.6**	1.6	9.0	3.2	**5.8**	32.5	**19.4**
7.4	1.8	.1	9.3	**7.0**	.9	6.1	2.1	**4.0**	30.1	**14.6**
5.3	.3	—	5.6	**3.2**	.8	2.4	.9	**1.5**	17.5	**10.3**
4.8	.2	—	5.0	**(.8)**	.8	(1.6)	(.6)	**(1.0)**	18.3	**(4.4)**
$64.5	$ 5.8	$ 14.0	$ 84.3	**$ 11.2**	$ 7.6	$ 3.6	$ .6	**$ 3.0**	$138.3	**4.2**
65.3	10.4	5.6	81.3	**16.0**	10.0	6.0	3.4	**2.6**	123.6	**5.7**
62.0	10.7	5.4	78.1	**2.3**	9.1	(6.8)	(3.0)	**(3.8)**	225.5	**.1**
54.1	4.4	2.1	60.6	**15.3**	2.5	12.8	5.1	**7.7**	66.1	**13.2**
40.5	4.3	2.1	46.9	**19.1**	2.5	16.6	7.1	**9.5**	59.0	**17.5**

INDUSTRIAL CATEGORIES

Reclassification

Certain components of prior years' industrial categories have been reclassified to segregate the company's financial services operations and group as investments those operations which are not individually significant.

Inter-Category Revenues

Sales of goods and services between categories are at market price. Industrial category revenues include inter-category revenues of $84 million in 1978 and $117 million in 1977 which are eliminated from consolidated revenues and cost of revenues in the company's consolidated statements of income.

Joint Venture Income

Included in third party revenues is the company's share of the income of joint ventures, subsidiaries and investments accounted for on the equity basis. In 1978, $11 million of such income is included in the revenues of the housing and land development category and $11 million in the revenues of the financial services category with no material amounts included in prior years' individual categories.

Revenues from Governments

Sales to Canadian federal, provincial and municipal governments and their agencies of $95 million in 1978 and $92 million in 1977 are included in revenues of the building materials and construction categories.

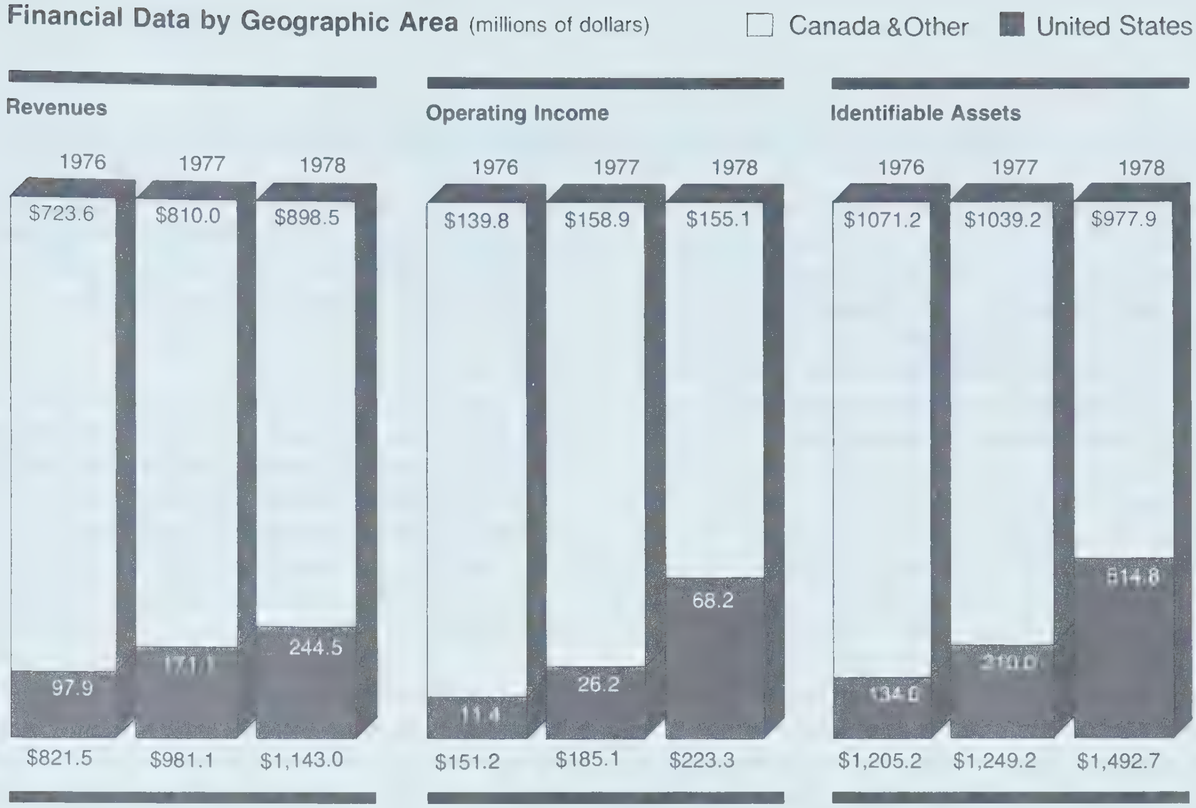
Interest and General Corporate Expenses

Interest expense is allocated in proportion to the average annual debt outstanding determined by applying representative total debt to equity ratios to each category. Prior years' interest allocations have been restated to this basis with a resulting decrease in allocations to capital intensive categories such as cement and increases in categories such as land and housing. Unrealized foreign exchange translation losses are included as general corporate costs and are allocated in proportion to net assets denominated in foreign currencies. Prior years' foreign exchange allocations have been restated to this basis with resulting changes in operating incomes and increases in corporate and general costs allocated to categories containing foreign operations. Other general corporate expenses are allocated in proportion to the average net assets of each category.

Operating income of the categories is calculated before the deduction of these

Identifiable Assets by Industrial Category (millions of dollars)

Financial Data by Geographic Area (millions of dollars)

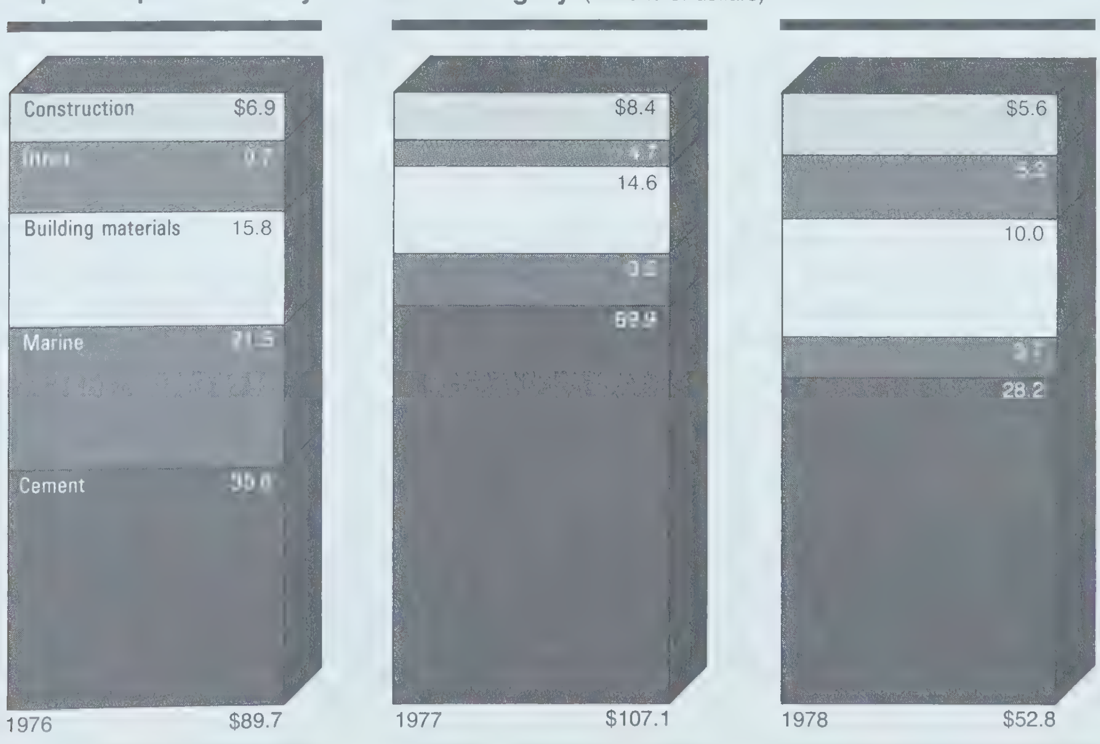


expenses and, accordingly, is greater than consolidated income before income taxes by $75 million in 1978 and $64 million in 1977.

Net Assets
Net assets consist of the identifiable assets less non-interest bearing liabilities of each category. General corporate assets of $22 million in 1978 and $16 million in 1977 are allocated to each category. Net assets are financed by interest-bearing debt, deferred income taxes and shareholders' equity.

Return on Net Assets
Return on net assets is the performance measurement obtained by dividing net income before interest expense less applicable income taxes by net assets.

Capital Expenditures by Industrial Category (millions of dollars)



Nature of Information

The following replacement cost information is presented pursuant to Rule 3-17 of Regulations S-X as adopted by the Securities and Exchange Commission, United States (SEC). It represents estimates of the cost of replacing all of the company's inventories and productive capacity at December 31, 1978 and the cost of sales and depreciation on the basis of replacement costs for the year then ended and should not be interpreted as representing actual events or future plans. The theoretical nature of the "complete replacement" assumption also cause the resultant information to be subject to inaccuracies and subjective judgements which would not be present in reporting actual transactions on an historical basis. In accordance with SEC recommendations, this data should not be used to revise reported income and assets or compare with other companies so as to avoid misinterpretation.

Manufacturing Inventories

Raw materials and repair parts have been estimated by reference to the latest buying prices for normal order quantities and supply conditions.

Work in process and finished goods replacement costs are based on standard costs adjusted for the latest material, labour and overhead variances.

Land

The estimated replacement cost of current and long-term land holdings is based on recent purchase prices of similar land for future use in the land development business cycle. Where similar land is not available, net realizable value has been calculated based on estimated current selling price less normal gross profit margins.

Revenue Properties

The replacement cost of the revenue properties was estimated using recent insurance evaluations adjusted for current market conditions. At December 31, 1978, all revenue properties have been sold.

Productive Capacity

The replacement cost of the cement, chemical and marine productive capacity and quarries and gravel deposits has been based on the cost of recent and ongoing expansions and guidelines provided by industry associations. The value of a cement plant to be replaced in early 1980 by an expanded facility recently constructed is calculated at estimated economic value on a discounted cash flow basis. The replacement cost of equipment related to building materials and construction operations has been based on information provided by regular suppliers and recent purchase prices. The replacement cost of other productive capacity has been estimated using a variety of indicators including historical price indexes, supplier data and recent costs.

Cost of Sales

Cost of sales on a replacement cost basis has been estimated based on cost changes and inventory turnover rates so as to charge income for the cost of replacing units as they are sold. Based on the company's accounting policy, cost of sales does not include depreciation.

Depreciation

The average of the replacement costs of productive capacity at December 31, 1978 and 1977 has been depreciated on a straight-line basis using the company's

historical, estimated useful lives and residual values.

Effect of Replacement

The actual replacement of the company's productive capacity would affect costs of sales and inventory costs to the extent that technological and market changes resulted in different production configurations, methods and product mixes. However, the estimated effect on direct labour, maintenance and other costs is not subject to reasonable estimation and accordingly has not been reflected in the reported replacement cost amounts. In addition, the cost of financing the replacement would be a significant factor in calculating any net cost saving.

Replacement Cost Data

	Estimated Replacement Cost		Comparable Reported Amounts	
	1978	1977	1978	1977
	(thousands of dollars)			
Inventories	$537,283	$385,099	$462,372	$330,144
Development land	$ 97,895	$141,691	$ 76,219	$ 94,484
Revenue properties	$ -	$ 52,485	$ -	$ 39,465
Accumulated depreciation	-	3,669	-	3,076
	$ -	$ 48,816	$ -	$ 36,389
Fixed assets	1,090,322	1,092,674	626,429	671,762
Less: Land which is not part of productive capacity	16,176	16,918	16,176	16,918
	1,074,146	1,075,756	610,253	654,844
Accumulated depreciation	511,576	480,218	243,397	254,416
	$562,570	$595,538	$366,856	$400,428
Cost of sales and services	$802,888	$701,715	$778,054	$677,934
Depreciation, depletion and amortization	$ 85,179	$ 59,900	$ 50,181	$ 34,691

Summary Comments

Although the preceding information provides a comparison with historical amounts, extreme care must be used in drawing conclusions from the comparison. The replacement cost amounts are theoretical in nature and by definition give no consideration to the market, financing and profitability factors which enter into the company's replacement and expansion decisions or the market and technological events which will affect future operations. Accordingly, the replacement cost amounts must not be viewed as either alternate historical amounts or estimations of future amounts.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

STATEMENTS of INCOME

for the years ended December 31, 1978 and 1977

(in thousands of dollars, except per share amounts)

	1978	1977
Revenue:		
Net sales	$730,175	$587,417
Other income, net (Note 12)	1,807	4,065
	731,982	591,482
Expenses (Notes 2, 3, 8 and 13):		
Cost of sales	585,994	488,727
Selling, general and administrative	67,594	55,738
Interest expense	13,055	12,553
	666,643	557,018
Income before income taxes	65,339	34,464
Provision for income taxes (Note 14)	27,618	13,615
Net income	$ 37,721	$ 20,849
Net income per share after provision for preferred dividends (Note 1)	$5.31	$3.08
Average number of common shares outstanding (Note 1)	7,046,810	6,584,765

See Schedule XVI for supplementary information as to certain expenses.
See notes and supporting schedules to financial statements.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

BALANCE SHEETS, DECEMBER 31, 1978 and 1977

(in thousands of dollars)

ASSETS:	1978	1977
Current Assets:		
Cash	$ 9,353	$ 3,496
Marketable securities (Note 1)	27,649	-
Accounts and notes receivable:		
Customers, less allowance for doubtful items and discounts: 1978 - $6,744; 1977 - $6,695 (Schedule XII)	91,597	83,271
Other	8,713	9,380
	100,310	92,651
Inventories (Notes 1 and 3):	76,013	73,807
Prepaid expenses	6,588	5,898
Total current assets	219,913	175,852
Property, plant and equipment (Notes 1, 2, 4, 8 & Schedule V).	509,325	481,934
Less, Allowances for depreciation and depletion (Note 1 and Schedule VI)	224,289	217,974
	285,036	263,960
Investments in associated companies (Notes 1, 5 and Schedule III)	24,864	23,875
Other assets (Schedule III)	21,771	31,727
	$551,584	$495,414

LIABILITIES:	1978	1977
Current Liabilities:		
Accounts payable, principally trade	$ 52,083	$ 42,581
Current installments on long-term debt (Notes 2, 7 and 8)	11,128	11,619
Accrued payrolls and commissions	6,196	4,679
Accrued income taxes (Note 14)	20,448	12,288
Accrued interest	3,154	2,419
Accrued pensions	5,374	5,141
Total current liabilities	98,383	78,727
Long-term debt (Notes 2, 7 and 8)	124,938	131,464
Deferred income taxes (Notes 2 and 14)	35,635	32,964
Proceeds from sale of future production (Note 9)	24,250	12,500
	283,206	255,655
Commitments and contingencies (Notes 8 and 15)		
SHAREHOLDERS' EQUITY:		
Preferred stocks (Note 10)	2,727	3,048
Common stock (Note 11)	35,412	33,340
Capital surplus	58,962	50,112
Earnings reinvested in the business (Notes 2 and 7)	171,835	153,259
Treasury stock, at cost (Note 10)	(558)	-
	268,378	239,759
	$551,584	$495,414

See notes and supporting schedules to financial statements.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

STATEMENTS of CHANGES in FINANCIAL POSITION

for the years ended December 31, 1978 and 1977

(in thousands of dollars)

	1978	1977
Funds provided from:		
Net income	$37,721	$20,849
Items not affecting working capital:		
Depreciation and depletion	23,331	24,017
Deferred income taxes	2,671	469
Estimated loss on investment	6,712	-
Funds provided from operations	70,435	45,335
Increase in long-term debt	5,866	7,303
Proceeds from sale of future production	12,500	12,500
Disposal of property, plant and equipment	6,211	6,362
Issuance of common stock in exchange for preferred stock	-	15,909
	95,012	87,409
Funds used for:		
Additions to property, plant and equipment	50,228	34,930
Acquisition of preferred stock exchanged for common stock	-	16,482
Acquisition of preferred stock for cash	558	2,130
Reduction of long-term debt	12,392	15,112
Cash dividends paid	9,702	8,328
Other, net	(2,273)	5,892
	70,607	82,874
Net increase in working capital	$24,405	$ 4,535
Changes in working capital:		
Cash and marketable securities	$33,506	$(6,175)
Accounts receivable	7,659	13,519
Inventories	2,206	6,526
Accounts payable and accrued expenses	(11,987)	2,528
Income taxes payable	(8,160)	(10,164)
Other	1,181	(1,699)
Net increase in working capital	$24,405	$ 4,535

See notes and supporting schedules to financial statements.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

STATEMENTS of SHAREHOLDERS' EQUITY

for the years ended December 31, 1978 and 1977

(in thousands of dollars)

	Preferred Stocks (Note 10)							
	$4 Cumulative	$4.50 Series A Conv. Second	$2.25 Series B Conv. Second	Total	Common Stock (Note 11)	Capital Surplus	Earnings Reinvested in the Business (Notes 7, 10 and 11)	Treasury Stock (At Cost) (Note 10)
1977								
Balance, January 1, 1977 as previously reported	$3,954	$11,861	$2,944	$18,759	$29,621	$40,291	$148,737	$(6,677)
Adjustment for the cumulative effect on prior years of applying retroactively the new method of accounting for leases (Note 2)			-				(970)	
Balance, January 1, 1977, as restated	3,954	11,861	2,944	18,759	29,621	40,291	147,767	(6,677)
Net income							20,849	
Cash dividends							(8,328)	
Exercise of stock options					59	121		
Exchange of preferred for common stock					5,132	10,777		(16,482)
Purchase of preferred stock								(2,130)
Retirement of treasury stock	(3,068)	(10,383)	(2,260)	(15,711)	(1,472)	(1,077)	(7,029)	25,289
Balance, December 31, 1977	886	1,478	684	3,048	33,340	50,112	153,259	-
1978								
Net income							37,721	
Cash dividends							(9,702)	
Exercise of stock options					318	840		
Purchase of preferred stock								(558)
Conversion of preferred stock		(295)	(26)	(321)	68	253		
5% stock dividend					1,686	7,757	(9,443)	
Balance, December 31, 1978	$ 886	$ 1,183	$ 658	$ 2,727	$35,412	$58,962	$171,835	$ (558)

See notes and supporting schedules to financial statements.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

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1. Summary of Significant Accounting Policies

Consolidation and Investments in Associated Companies:

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. Investments in associated companies over which the Company exercises significant influence are accounted for under the equity method.

Certain balance sheet items have been reclassified to conform with the Company's 1978 financial statement presentation.

Marketable Securities:

Marketable securities are stated at cost which approximates market.

Inventories:

Inventories are stated at the lower of cost (principally average) or market.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Annual depreciation (including amortization related to assets held under capital leases) is provided using the straight-line method, generally at the following rates: Land fixtures, 4 to 5%; Buildings, 2 1/2 to 5%; Machinery, equipment and furniture, 4 to 12 1/2%. Depletion is provided on the unit-of-production basis. When significant properties are retired or sold, the asset values and related reserves are eliminated from the accounts and any gain or loss on disposition is included in earnings. Maintenance and repairs are generally charged to expense as incurred. Major renewals and betterments generally are capitalized.

Pension Plans:

Pension costs, which include prior service costs amortized principally over a thirty-year period, are computed on the basis of accepted actuarial cost methods. The policy is to fund pension costs accrued.

Income Taxes:

Investment tax credits are accounted for using the flow-through method.

United States income taxes are not accrued for undistributed earnings of Canadian subsidiaries as such amounts are considered to be permanently invested.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

1. Summary of Significant Accounting Policies - Continued

Income Taxes (Continued):

If such undistributed earnings ($32,910 at December 31, 1978) were remitted, the resulting tax liability would be substantially offset by foreign tax credits.

Earnings Per Share:

Earnings per share are based upon the weighted average number of shares outstanding during the year, giving retroactive effect to the 5% stock dividend declared in December, 1978.

2. Change in Accounting Policy

In accordance with the requirements of the Securities and Exchange Commission Accounting Series Release No. 225, the financial statements reflect the retroactive adjustment for the provisions of The Financial Accounting Standards Board Statement No. 13 which requires capitalization of certain leases which were formerly treated as operating leases. The cumulative adjustment necessary to record the assets and related obligations under capital leases is shown as an adjustment to January 1, 1977 earnings reinvested in the business. Certain income, expense and other balance sheet accounts (principally deferred income taxes) have been restated to reflect the retroactive application.

3. Inventories

	1978	1977
Inventories comprise the following:		
Finished goods and work-in-process	$ 48,872	$ 48,132
Raw materials	17,761	16,187
Operating supplies	9,380	9,488
	$ 76,013	$ 73,807

Opening and closing inventories used in the computation of cost of sales were as follows:

	1978	1977
January 1	$ 73,807	$ 64,192
December 31	76,013	73,807

(All dollar amounts, except per share amounts,
expressed in thousands of dollars)

4. Property, Plant and Equipment

Property, plant and equipment comprise the following:

	1978	1977
Land	$ 8,905	$ 9,070
Mining properties and rights	20,850	19,140
Buildings and land fixtures	87,244	87,656
Machinery, equipment and furniture	310,342	281,380
Assets held under capital leases	71,900	68,321
Construction in progress	10,084	16,367
	509,325	481,934
Less, Allowances for depreciation and depletion	224,289	217,974
	$285,036	$263,960

The following is an analysis of property held under capital leases:

	1978	1977
Land and buildings	$10,130	$10,130
Machinery and equipment	61,770	58,191
	$71,900	$68,321

See Schedules V and VI.

5. Investments in Associated Companies

The Company's investments in associated companies at December 31, 1978 consist primarily of a 20% interest in Adobe Oil & Gas Corporation. The Company has options extending through 1980 to purchase an additional 600,000 shares of Adobe common stock at prices ranging from $18.00 to $25.00 per share. The excess of the carrying value of the Company's investment over its share of Adobe's underlying net tangible assets amounted to $9,923 and $10,518 at December 31, 1978 and 1977, respectively, which is being amortized over a period of 20 years. The market value of Adobe at December 31, 1978 amounted to $24,850. The Company's share of earnings in associated companies is included in "Other income, net".

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

6. Short-Term Borrowing Arrangements

During 1978, the maximum amount of aggregate short-term borrowings outstanding, principally commercial paper obligations, at any month-end was $39,000 and the average short-term borrowings were $19,100, on which the daily weighted average interest rate was 7.7%. Corresponding amounts applicable to 1977 were $35,000, $19,000 and 5.9%, respectively. The Company's available lines of credit with various banks aggregate $73,000. The lines of credit are renewable annually with no commitment fees, generally provide unsecured financing for 90 days at the prevailing prime interest rate and support the Company's commercial paper borrowing arrangements.

7. Long-Term Debt

Long-term debt at December 31, 1978 and 1977 comprises:

	1978	1977
Sinking fund debentures:		
8 1/4%, annual redemptions due July 15, balance 1996. .	$ 34,000	$ 36,000
4 5/8%, annual redemptions due April 1, balance 1981. .	9,436	11,110
8% Promissory notes, annual installments January 1, 1979 to 1981	2,730	4,095
Notes payable -- banks:		
8 1/4%, semi-annual installments beginning April 1, 1981, balance 1984	20,000	20,000
12 1/4% (3/4% above the Canadian bank's prime rate), semi-annual installments, balance 1983	2,040	2,457
Other, 4 to 10%, due various dates through 1998	5,654	6,271
	73,860	79,933
Capital leases (See Note 8):		
Pollution control revenue bonds:		
5 1/2%, annual redemptions beginning December 31, 1983, balance 1997	15,250	15,250
5 3/4%, annual redemptions beginning October 31, 1984, balance 1998	5,000	5,000
5 9/10%, annual redemptions beginning February 28, 1985, balance 1999	5,300	5,300
6 1/4%, Industrial development revenue bonds, annual redemptions beginning June 30, 1984, balance 1998 . .	2,700	2,700
	28,250	28,250
Other capital leases	22,828	23,281
	$124,938	$131,464

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

7. Long-Term Debt - Continued

At December 31, 1978 payments due on long-term debt, excluding capital leases, for the succeeding five years are as follows:

1979	$ 5,277
1980	5,395
1981	15,293
1982	9,196
1983	11,411

Amounts authorized by indentures relating to the Company's 8 1/4% and 4 5/8% sinking fund debentures are $40,000 and $35,000, respectively; none of these debentures are held by or for the Company or any of its affiliates. Repayment requirements of the sinking fund debentures have been met.

Expenses in connection with the issuance of long-term debt are being amortized over the life of the debt on the straight-line method.

The Company has certain restrictions, principally under long-term debt instruments, with respect to the payment of cash dividends and the purchase or redemption of Company stocks. The amount of earnings reinvested in the business free of such restrictions at December 31, 1978 was approximately $84,200.

8. Leasing Arrangements

The Company leases land and buildings (principally wholesale supply distribution facilities) and machinery and equipment (principally mobile equipment) under various capital and operating leases. The land and building leases expire at various dates through 1996 and the machinery and equipment leases expire during the next 8 years. Certain leases include options at their expiration for lease renewal or purchase of the leased property at prices not exceeding fair rental or market value at the option date.

The Company has guaranteed the repayment of the pollution control and industrial development revenue bonds issued in prior years to finance the construction of facilities which the Company is leasing from the governmental authorities which issued the bonds. The lease agreements provide for annual lease payments equal to the bond redemption requirements, plus accrued interest. Such lease payments consist of interest requirements of $1,608 per annum through 1982 and bond redemption and interest requirements

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

8. Leasing Arrangements - Continued

thereafter. Under the lease agreements, the Company has the option to purchase such facilities, commencing with the scheduled redemption periods, for the then outstanding amount of bonds, plus a premium, or for one dollar at the conclusion of each lease.

At December 31, 1978, future minimum lease payments under capital leases (together with the present value of the net minimum lease payments) were as follows:

Year ending December 31,	
1979	$ 9,173
1980	8,963
1981	7,716
1982	6,173
1983	5,851
Later years	56,503
Total minimum lease payments	94,379
Less, Amount representing estimated executory costs	(1,180)
Net minimum lease payments	93,199
Less, Amount representing interest	(36,270)
Present value of minimum lease payments; (current and non-current long-term debt of $5,851 and $51,078, respectively)	$56,929

The Company also leases machinery and equipment under operating leases. Rental expense for operating leases in 1978 and 1977 was $10,011 and $6,819, respectively. At December 31, 1978, future minimum rental payments required under operating leases that have non-cancellable lease terms in excess of one year were as follows:

Year ending December 31,	
1979	$ 3,652
1980	3,386
1981	2,565
1982	2,162
1983	1,765
Later years	5,729
Total	$19,259

9. Proceeds from Sale of Future Production

In June, 1977, the Company sold future production from certain limestone deposits for $25,000. Under the agreement, the Company received $12,500 in June, 1977 and the remainder in December, 1978. The proceeds have been deferred and will be reflected in income, together with related costs and expenses, as the limestone is produced and sold. An amount equivalent to interest is payable by the Company at an average rate of 8.9% of the outstanding production payment.

10. Preferred Shares

At December 31, 1978, preferred shares authorized were as follows: $4 cumulative, no par - 8,359; $4.50 Series A Convertible Second, $100 par - 14,778; $2.25 Series B Convertible Second, no par - 341,810. Cash dividends in 1978 and 1977 amounted to $291 and $654, respectively.

During 1977, the Company extended an offer (which expired on May 27, 1977) to the holders of the $2.25 and $4.50 Convertible preferred shares to exchange their shares for common shares of the Company in the ratios of two common shares and four common shares for each share of preferred, respectively. In addition, the Company extended an offer to the holders of the $4 preferred shares to tender each of their shares for $75.00 in cash.

Assuming that the common shares issued under the exchange offer had been issued as of January 1, 1977, the pro forma net income per share for 1977, adjusted for convertible preferred dividends, would be $2.93. The pro forma effect of assuming the repurchase of the $4.00 cumulative preferred stock as of January 1, 1977 is not material.

At the 1978 Annual Meeting, the shareholders' approved retirement of all preferred shares held in treasury as of December 31, 1977 and such shares have been reflected as retired in the accompanying financial statements as of that date.

At December 31, 1978, after giving effect to the payment of the 5% common stock dividend, each share of the $4.50 and $2.25 series preferred stock is convertible into 3.185 and 1.337 shares of common stock, respectively.

(All dollar amounts, except per share amounts,
expressed in thousands of dollars)

10. Preferred Shares - Continued

Transactions in preferred shares during 1978 and 1977 are as follows:

	$4 Cumulative		$4.50 Series A Conv. Second		$2.25 Series B Conv. Second	
	Issued	Treasury	Issued	Treasury	Issued	Treasury
1977						
Balance, January 1, 1977	37,280	(1,237)	118,604	-	398,800	-
Exchange of shares	-	-	-	(103,820)	-	(305,890)
Purchase of shares	-	(27,684)	-	(6)	-	(300)
Retirement of treasury shares	(28,921)	28,921	(103,826)	103,826	(306,190)	306,190
Balance, December 31, 1977	8,359	-	14,778	-	92,610	-
1978						
Purchase of shares	-	(5,520)	-	(1,041)	-	(400)
Conversion of shares	-	-	(2,947)	-	(3,630)	-
Balance, December 31, 1978	8,359	(5,520)	11,831	(1,041)	88,980	(400)

The caption "Exchange of shares" includes 30 shares of $4.50 Series A and 745 shares of $2.25 Series B preferred stocks which were converted into 90 and 942 shares of common stock, respectively, during 1977.

The $4 preferred stock has a sinking fund provision requiring the annual redemption of 2,000 shares. The Company has acquired sufficient shares to satisfy this requirement through 1993.

The aggregate involuntary liquidation or redemption amount of the outstanding preferred stocks at December 31, 1978 was $5,792 and the voluntary amount was $6,087.

The amounts (plus accrued dividends) to which each share is entitled are:

	Involuntary	Voluntary
$4 cumulative	$100.00	$107.00
$4.50 Series A convertible second . .	100.00	105.00
$2.25 Series B convertible second	50.00	52.50

At December 31, 1978, the use of earnings reinvested in the business is not restricted by the excess ($3,775) of the aggregate involuntary liquidation amount over the stated value of the $2.25 preferred stock.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

11. Common Shares

During 1977, the number of authorized shares of common stock ($5 par value) was increased from 10,000,000 to 20,000,000.

Common stock reserved for options and for conversion of preferred shares aggregated 209,153 and 152,782 shares, respectively, at December 31, 1978. No capital shares of the Company are reserved for options, warrants, conversions or other rights except as indicated in this note.

On December 6, 1978, the Board of Directors declared a 5% stock dividend payable January 25, 1979 to stockholders of record December 21, 1978. Per share amounts and stock option data have been retroactively adjusted for stock dividends declared through December 31, 1978. The effect of the 5% stock dividend was to reduce earnings per share by $.27 and $.15 in 1978 and 1977, respectively.

Cash dividends in 1978 and 1977 amounted to $9,411 ($1.33 per share) and $7,674 ($1.14 per share), respectively.

Transactions in common shares during 1978 and 1977 are as follows:

	Shares Issued	Treasury Shares
1977		
Balance, January 1, 1977	5,924,239	(294,500)
Exercise of stock options	11,800	-
Exchange of preferred for common	1,026,482	-
Retirement of treasury shares	(294,500)	294,500
Balance, December 31, 1977	6,668,021	-
1978		
Exercise of stock options	63,650	-
Conversion of preferred stocks	13,471	-
Stock dividend	337,258	-
Balance, December 31, 1978	7,082,400	-

Under stock option plans approved by shareholders in 1972 and 1969, the Company is authorized to grant options over a ten-year period to certain officers and employees for the purchase of a maximum of 200,000 and 100,000 shares of common stock, respectively. The plans provide: (1) the option price may not be less than the fair market value at date of grant; (2) amounts applicable to options exercised must be

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

11. Common Shares - Continued

paid in full on the date of exercise; (3) options are exercisable twelve months after grant and expire five years after date of grant; and (4) no option may be exercised while any options previously granted under these plans are outstanding at a higher price. No charges are made to income in connection with the granting or exercising of these options.

When options for common stock are exercised, the par value of the shares issued is credited to "Common Stock" and the excess of the option price over par value is credited to "Capital Surplus".

Information with respect to these plans follows:

	Number of Shares	Option Price Per Share	Option Price Total	Market Value Per Share	Market Value Total
Shares under option at December 31, 1978 (a)					
Year of grant:					
1977	84,781	$20.2976	$1,721	$20.2976(b)	$1,721
1975	18,480	14.1071	261	14.1071(b)	261
	103,261		$1,982		$1,982
Options first exercisable:					
1978	113,150	21.3125	$2,412	21.625 (c)	$2,447
1977	None				
Options exercised:					
1978	63,650	14.8125 to 21.3125	1,158	20.125 (d) to 38.25	1,704
1977	11,300	14.8125 to 16.00	180	17.375 (d) to 22.00	248
Options granted:					
1978	None				
1977	114,150	21.3125	2,433	21.3125 (b)	2,433
Options cancelled:					
1978	1,500	21.3125	32		
1977	1,500	14.8125 and 21.3125	29		
Options expired:					
1978	325	16.00	5		
1977	18,900	31.00	586		
Shares available for future options at December 31 (a):					
1978	105,886				
1977	103,971				

(a) After giving effect to 5% stock dividend.
(b) At dates options were granted.
(c) At dates options first became exercisable.
(d) At dates options were exercised.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

12. Other Income, Net

Other income, net consists of the following:

	1978	1977
Net gain on sale or termination of certain operations	$ 6,167	$ 1,335
Estimated loss on investment of Hajoca Corporation (formerly Gable Industries, Inc.)	(6,712)	-
Net gains on sale of property and equipment	1,172	1,950
Unrealized Canadian currency exchange loss	(1,347)	(1,467)
Equity in net earnings of associated companies	652	662
Interest income	1,596	646
Miscellaneous, net	279	939
	$ 1,807	$ 4,065

The pre-tax gain on sale or termination of certain operations ($6,167) results principally from the sale of the Company's wood fiber products plant in Mississippi. These transactions increased net income by $3,914 ($.55 per common share). Net sales and net income for these operations included in 1978 operating results prior to sale or termination are not significant.

During the fourth quarter of 1978, the Company re-evaluated its investments in associated companies. Due to certain changes in management's policy with respect to its investments in associated companies, the Board of Directors authorized management to pursue appropriate plans for disposition of its investment in Hajoca Corporation (44% owned). The carrying value of such investment has been written down to estimated net realizable value and is included in other assets. The effect of such write-down on 1978 results of operations is to decrease net income and earnings per share by $4,489 and $.64, respectively.

13. Pension Plans

The Company and its subsidiaries have various pension plans, some of which are contributory, covering substantially all salaried and sales employees and certain hourly employees. Pension costs under the plans in 1978 and 1977 were $5,535 and $5,372, respectively. The actuarially computed value of vested benefits of all Company pension plans as of the latest actuarial valuation date of each plan was $79,400, of which approximately 82%, or $65,200 is funded, the balance being funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974 or other applicable law. Unfunded prior service costs amounts to approximately $23,700 at December 31, 1978. In addition, the Company contributed $1,646 and $1,488 in 1978 and 1977, respectively, to various joint industry and union administered pension plans, where the Company contributes defined amounts per unit worked.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

14. Income Taxes

The components of the provision for income taxes are as follows:

	U. S. Federal		Foreign		State and Local		Total	
	1978	1977	1978	1977	1978	1977	1978	1977
Currently payable	$23,583	$10,112	$ 992	$ 734	$3,474	$1,943	$28,049	$12,789
Deferred	(325)	817	(413)	(221)	307	230	(431)	826
	$23,258	$10,929	$ 579	$ 513	$3,781	$2,173	$27,618	$13,615

Provisions for income taxes are based on the tax effects of transactions which are included in the determination of pre-tax accounting income, and appropriate provision is made for deferred income taxes as follows:

	1978	1977
Excess of tax over book depreciation	$ 3,740	$ 3,136
Writedown of certain assets to estimated realizable value which are not deductible in the same period for tax purposes	(2,606)	(2,311)
Other	(1,565)	1
	$ (431)	$ 826

The reconciliation of the Company's effective tax rate to the federal statutory rate of 48% is as follows:

	1978	1977
U. S. federal statutory income tax rate	48.0%	48.0%
Investment tax credits	(6.7)	(5.6)
Excess of percentage over cost depletion	(3.5)	(5.1)
State income taxes	3.0	3.3
Unrealized foreign currency exchange loss	1.1	2.0
Other	.4	(3.1)
Effective Tax Rate	42.3%	39.5%

Investment tax credits utilized as a reduction of U. S. federal income taxes currently payable amounted to $4,303 and $1,785 for 1978 and 1977, respectively.

15. Contingencies

In 1973, the Company and certain other manufacturers and sellers of polyurethane foam were named as party defendants in a private civil suit instituted in Federal District Court in Arizona as a class action by the State of Arizona and others (the "first Cook case"). The case was dismissed as to the Company in 1974 and the decision by the District Court was affirmed by the Circuit Court of Appeals for the Ninth District in August, 1976. After a request for a rehearing was denied, plaintiffs filed a petition for review by the U. S. Supreme Court which was denied in March, 1977.

In 1975, litigation was instituted in the state courts in Arizona and California against the Company on behalf of certain named plaintiffs who would have been members of the class in the first Cook case. The cases filed in state court in California have been removed to the Federal courts and transferred to the District of Arizona. The Company's motions to dismiss these several actions on various grounds and against various plaintiffs have been granted in part and denied in part. Discovery is proceeding in these cases.

Several other plaintiffs have sued in the state courts in California, Nevada and Tennessee to recover for personal injury and property damage allegedly caused by polyurethane foam installations.

Based upon the investigation made to date of the facts and legal issues involved, it is the opinion of the counsel engaged to represent the Company in the above several actions that the Company has meritorious defenses to them. Depending upon various circumstances, some or all of the damages, if any are ultimately awarded, would be covered by insurance.

The Company has been named as defendant, along with numerous other defendants, in a number of actions commenced in Federal courts in various states by plaintiffs, purporting to represent various groups alleging that the Portland Cement Association and its members, including the Company, have violated the antitrust laws by engaging in a conspiracy to fix, stabilize and maintain the price of cement. No specific amount of money damages is claimed. These actions, most of which have been remanded to the District of Arizona, are only in a preliminary stage. Management of the Company denies the allegations. Based upon investigation of the allegations to date counsel engaged to represent the Company in these actions believes that the position of management is sound and remains of the opinion that the Company has meritorious defenses to the claims. The Company intends to defend the actions vigorously.

The Company is also party to other routine claims and suits brought against it in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, the results are not expected to materially affect the Company's financial position.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

16. Segment Data

Information about the Company's operations in different industries for the years ended December 31, 1978 and 1977 is as follows:

1978	Building Products	Cement and Lime Products	Stone Products	Canadian Operations	Eliminations	Consolidated
Net sales to unaffiliated customers	$413,998	$128,733	$117,944	$69,500	-	$730,175
Intersegment net sales	33	3,998	1,339	3,856	($9,226)	-
Total net sales	$414,031	$132,731	$119,283	$73,356	($9,226)	$730,175
Operating profit	$ 48,633	$ 27,636	$ 10,418	$ 2,876	-	$ 89,563
Canadian currency exchange loss						(1,347)
General corporate expenses, net						(9,822)
Interest expense						(13,055)
Income before income taxes						$ 65,339
Identifiable assets at December 31, 1978	$157,781	$168,723	$ 68,107	$59,954	-	$454,565
Investments in associated companies						24,864
Corporate assets						72,155
Total assets at December 31, 1978						$551,584

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

16. Segment Data - Continued

1977	Building Products	Cement and Lime Products	Stone Products	Canadian Operations	Eliminations	Consolidated
Net sales to unaffiliated customers	$324,388	$103,532	$ 94,765	$64,732	-	$587,417
Intersegment net sales	656	3,438	1,337	2,961	($8,392)	-
Total net sales	$325,044	$106,970	$ 96,102	$67,693	($8,392)	$587,417
Operating profit	$ 27,160	$ 15,234	$ 8,337	$ 2,972	-	$ 53,703
Canadian currency exchange loss						(1,467)
General corporate expenses, net						(5,219)
Interest expense						(12,553)
Income before income taxes						$ 34,464
Identifiable assets at December 31, 1977	$154,908	$152,459	$ 53,794	$56,577	-	$417,738
Investments in associated companies						23,875
Corporate assets						53,801
Total assets at December 31, 1977						$495,414

The Company operates principally in three industries which have been grouped into the following four segments:

Building Products - includes production and sale of gypsum, roofing, insulation and flooring products. Also included are building products distribution centers which carry Flintkote products, as well as products manufactured by others.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

16. Segment Data - Continued

Cement and Lime Products - includes production and sale of portland cements, high grade limestone, hydrated lime, quicklime and calcium carbonate.

Stone Products - includes production and sale of concrete, crushed stone products, contract construction services and home repair products.

Canadian Operations - includes production and sale of crushed stone and gypsum rock, contract construction services, bituminous concrete, asphalt road emulsions, flooring products and home repair products. Also included are flooring centers which sell and install Flintkote as well as other manufacturers' flooring products. The Company has organized its Canadian businesses as a separate operating entity, although certain of these operations, principally Stone Products, are similar to the Company's domestic activities.

Total revenue by business segment includes both sales to unaffiliated customers, as reported in the Company's consolidated income statement, and intersegment sales. Intersegment sales of Cement and Lime Products are principally at market and all other intersegment sales are principally at cost.

Depreciation and depletion and capital expenditures during 1978 and 1977 for each of the segments were as follows:

	Depreciation and Depletion		Capital Expenditures	
	1978	1977	1978	1977
Building Products	$7,260	$7,029	$11,871	$ 6,126
Cement and Lime Products	7,995	9,078	19,132	20,528
Stone Products	4,595	4,693	14,503	4,946
Canadian Operations	3,062	3,069	4,642	2,995

General corporate expenses, net, principally include unallocated corporate costs, net gains on disposals of property not identified with current operations of a specific segment, earnings of associated companies, and in 1978, loss on writedown of investment in Hajoca Corporation to estimated net realizable value.

Corporate assets consist of items not identifiable with or currently utilized by specific business segments, including cash, certain receivables, property under construction and investments held for disposition.

16. Segment Data - Continued

Investments in associated companies is principally the Company's investment in Adobe Oil & Gas Corporation which operates principally in the United States. Adobe engages in the exploration and recovery of petroleum and natural gas products and has interests in coal mining operations and a refinery.

17. SEC Replacement Cost Data (Unaudited)

The replacement cost information presented in this section of the financial statements is furnished pursuant to Rule 3-17 of Regulation S-X which was announced in the Securities and Exchange Commission's Accounting Series Release No. 190. In that Release, the SEC cautioned investors and analysts against "simplistic use" of replacement cost information. In issuing that warning, the SEC stated:

> "...(The Commission) intentionally determined not to require the disclosure of the effect on net income of calculating cost of sales and depreciation on a current replacement cost basis, both because there are substantial theoretical problems in determining an income effect and because it did not believe that users should be encouraged to convert the data into a single revised net income figure. The data are not designed to be a simple road map to the determination of 'true income'. In addition, investors must understand that due to the subjective judgments and the many different specific factual circumstances involved, the data will not be fully comparable among companies and will be subject to errors of estimation."

The replacement cost information is based on the hypothetical assumption that the Company would replace its inventory and productive capacity at the end of its fiscal year, whether or not the funds to do so were available or such "instant" replacement were physically possible. This assumption requires that management contemplate many actions at the end of each year that ordinarily would not be addressed all at one time. Accordingly, the information should not be interpreted to indicate that the Company actually has present plans to replace its productive capacity or that actual replacement would or could take place in the manner assumed in estimating the information. In the normal course of business, the Company will replace its productive capacity over an extended period of time. Decisions concerning replacement will be made in the light of economic, regulatory and competitive conditions existing at the time such determinations are made and could differ substantially from the assumptions on which the data included herein are based.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

17. SEC Replacement Cost Data (Unaudited) - Continued

Replacement cost information required by Rule 3-17 is as follows:

	At December 31, 1978		At December 31, 1977	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
Inventories:				
Finished goods and work-in-process . .	$ 54,129	$ 48,872	$ 53,336	$ 48,132
Raw materials	18,467	17,761	16,625	16,187
Operating supplies	9,629	9,380	9,699	9,488
	$ 82,225	$ 76,013	$ 79,660	$ 73,807
Property, plant and equipment:				
Buildings and land fixtures	$179,915	$ 84,279	$174,520	$ 84,090
Machinery, equipment and furniture . .	718,810	364,275	644,619	332,758
	898,725	448,554	819,139	416,848
Less, Allowances for depreciation .	442,300	206,020	414,361	201,701
	$456,425	$242,534	$404,778	$215,147

	Year Ended December 31, 1978		Year Ended December 31, 1977	
	Replacement Cost	Historical Cost	Replacement Cost	Historical Cost
Cost of Sales	$609,108	$585,994	$507,834	$488,727
Current Year Depreciation/Depletion:				
Included in above Cost of Sales . . .	37,813	19,875	35,154	19,793
Included in other accounts	5,337	3,456	6,748	4,224

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

17. SEC Replacement Cost Data (Unaudited) - Continued

The following table reconciles the historical cost amounts for which replacement cost information is provided, to the related totals shown in the consolidated financial statements:

	At December 31, 1978			At December 31, 1977		
	Inventory	Property, Plant and Equipment	Accumulated Depreciation/ Depletion	Inventory	Property, Plant and Equipment	Accumulated Depreciation/ Depletion
Amounts for which replacement cost information is provided	$76,013	$448,554	$206,020	$73,807	$416,848	$201,701
Replacementcost information not provided or required:						
Land		8,905			9,070	
Construction in progress		10,084			16,367	
Mining properties and rights . .		20,850	5,312		19,140	4,882
Assets not to be replaced		19,209	12,727		18,786	11,245
Leased land		1,723	230		1,723	146
Total as shown on the accompanying balance sheet	$76,013	$509,325	$224,289	$73,807	$481,934	$217,974

17. SEC Replacement Cost Data (Unaudited) - Continued

The basic replacement cost data presented above do not reflect any operating cost savings which may result from the replacement of existing assets. If the Company's productive capacity were to be replaced in the manner assumed in the calculation of replacement cost, certain costs in addition to depreciation expense would be altered. Although these expected cost changes cannot be quantified with precision, the current level of operating costs other than depreciation would be reduced as a result of the technological improvements assumed in the hypothetical replacement. In the opinion of management, such operating cost efficiencies would be significant.

The replacement cost information presented does not reflect all of the effects of inflation and other economic factors on the Company's current cost of operating the business. Rule 3-17 does not require consideration of these effects on assets and liabilities other than as stated herein. The Company has not attempted to quantify the total impact of inflation and changes in other economic factors on its business because of the many unresolved conceptual problems involved in doing so. Further, the above replacement cost information standing alone does not recognize the customary relationships between cost changes and changes in selling prices. The Company has attempted over the years to adjust selling prices to maintain profit margins. Competitive conditions permitting, the Company expects to modify its selling prices to recognize future cost changes.

The replacement cost of inventories was calculated by using prevailing year-end prices of purchased items and the approximate year-end production cost of manufactured items adjusted for seasonal distortions and includes depreciation based on replacement cost of productive capacity. Accordingly, such replacement cost may not compare to any costs which may be actually incurred in the subsequent replacement (after sale) of such inventories.

Replacement costs of productive capacity for 1977 were developed principally through indexing of 1976 cost (76%) and direct pricing (20%). Replacement costs for 1978 were based mainly on indexing of 1977 costs.

Replacement cost of sales was estimated through adjustment of each operation's historical costs for the time lag between incurring inventory costs and their subsequent conversion into sales revenue.

17. SEC Replacement Cost Data (Unaudited) - Continued

Depreciation based on the replacement cost of productive capacity has been estimated on a straight-line basis using the same estimates of useful life utilized in preparing the historical cost financial statements. Average replacement cost of productive capacity during the year was the basis upon which depreciation expense was computed. Where depreciation or depletion of mineral resource assets and other assets for which replacement cost has not been provided is included as a component of cost of sales or other accounts, such component has been included in the replacement cost data at the historical cost amount.

Replacement cost data is not required for assets classified as mineral properties and rights, however, disclosure of costs incurred currently in the acquisition, exploration and development of mining properties is required. During 1978 $1,846 was spent on the acquisition of mining properties. Other expenditures consisted of development costs relating to stripping of overburden from mining properties, which are deferred as incurred and charged to income as the minerals are extracted. During 1978, $2,183 was expended for stripping activities and $3,212 was charged to income. Comparable amounts for 1977 were $1,735 and $1,811, respectively. Unamortized stripping expense at the end of 1978 and 1977 amounted to $1,219 and $2,248, respectively. Competitive conditions permitting, the Company expects to modify its selling price to recognize future cost changes.

Assets identified as "Not to be replaced" are primarily related to operations terminated and to surplus assets at various locations.

Replacement cost amounts related to foreign (Canadian) assets have been initially calculated in Canadian currency and translated to U. S. Dollars using year-end rates of exchange. Replacement cost amounts related to Canadian cost of sales and depreciation expense have been translated using average annual rates of exchange.

(All dollar amounts, except per share amounts, expressed in thousands of dollars)

18. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1978 and 1977 is as follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
1978				
Net sales	$123,424	$199,334	$217,633	$189,784
Cost of sales	$103,661	$158,944	$171,206	$152,183
Other expenses and income, net	17,629	20,662	20,114	20,437
	$121,290	$179,606	$191,320	$172,620
Net income	$ 1,418	$ 12,319	$ 15,527	$ 8,457
Net income per share after provision for preferred dividends	$.19	$1.74	$2.18	$1.20
1977				
Net sales	$ 98,678	$157,648	$179,692	$151,399
Cost of sales	$ 85,778	$128,852	$146,892	$127,205
Other expenses and income, net	14,098	16,509	16,410	17,209
	$ 99,876	$145,361	$163,302	$144,414
Net income (loss)	($ 637)	$ 7,410	$ 9,875	$ 4,201
Net income (loss) per share after provision for preferred dividends	($.16)	$1.19	$1.47	$.58

The fourth quarter of 1978 includes disposal or termination of certain operations and writedown of investment (see Other income, net - Note 12).

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SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES

For the Year Ended December 31, 1978
(thousands of dollars)

Column A	Column B	
	Balance at Beginning of Period	
Name of Issuer and Description of Investment	Number of Shares or Units Principal Amount of Bonds and Notes	Amount in Dollars
COMPANY		
SUBSIDIARIES CONSOLIDATED:		
Abbey Glen Property Corporation:		
Common Shares without nominal or par value	1,139,028	8,605
Con-Force Costain Concrete Tie Co. Ltd.:		
Class A shares without nominal or par value	-	-
Con-Force Limited:		
Preferred and Common Shares	13,000	3,964
Engineered Homes Limited:		
Shares without nominal or par value	-	-
Genstar Construction Limited:		
Common Shares without par value	-	-
Genstar Enterprises Limited:		
Preferred and Common Shares without nominal or par value	130,800	27,149
Genstar Holdings N.V.:		
Common and Preferred Shares of a par value of 10 and 100 Dutch guilders each respectively	537,100	29,932
Genstar International S.A.:		
Common Shares of a par value U.S. $20 each	1,250,000	26,096
Genstar Marine Limited:		
Preferred and Common Shares of a par value of $1,000 each	31,401	22,889
Genstar Services Limited (formerly Genstar Securities Limited):		
Common Shares without nominal or par value	5,000	5,000
G.N.C. Realty Products Limited:		
Preference Shares $100 par value and Common Shares of no par value	-	-
Indussa Corporation:		
Common Shares of a par value of $100 each	15,000	3,460
International Fertilizers Limited:		
Common Shares of a par value of $100 each	12,750	1,436
Keith Construction Limited:		
Shares of no par value	-	-
McAllister Towing and Salvage Ltd.:		
Common Shares without nominal or par value	750	750
Miron Company Ltd.:		
Preferred Series A, Class A and ordinary shares	3,725,060	23,910
Ocean Construction Supplies Limited:		
Shares of a par value of $100 each	-	-
Redi-Mix Limited:		
Common Shares without nominal or par value	223,677	3,206
Other:		
Common and Preferred Shares	112,747	1,348
		$157,745
50%-OWNED COMPANIES:		
Other:		
Common Shares		$ 1
CONSOLIDATED:		
Non-consolidated financial services subsidiaries (100%)	-	$ -
50%-OWNED COMPANIES:		
Other:		
Common Shares	3,756,823	$ 9,106
Investment in The Flintkote Company (21.5%)	-	$ -

Column C		Column D		Column E		Column F
Additions		Deductions		Balance at End of Period		Dividends Received During the Period from Investments not accounted for by the Equity Method
Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other	Distribution of Earnings by Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units Principal Amount of Bonds and Notes	Amount in Dollars	
-	2,210 (2)	-	10,815 (3)	-	-	-
-	750 (3)	-	-	1,500	750	-
-	-	-	3,964 (3)	-	-	-
-	1,920 (3)	-	-	1,000	1,920	1,000
-	6,000 (3)	-	-	6,000,000	6,000	-
-	-	-	27,149 (3)	-	-	-
-	36,000 (1)	-	-	1,474,500	65,932	-
-	-	-	-	1,250,000	26,096	-
-	-	-	-	31,401	22,889	5,000
-	-	-	-	5,000	5,000	-
-	7,840 (3)	-	-	612,000	7,840	-
-	222 (3)	-	-	15,000	3,682	-
-	-	-	-	12,750	1,436	-
-	1,935 (3)	-	-	1,000	1,935	3,300
-	-	-	-	750	750	-
-	-	-	-	3,725,060	23,910	-
-	27,878 (3)	-	-	11,806	27,873	2,085
-	-	-	3,206 (3)	-	-	-
-	183 (3)	-	385 (3)	148,267	1,146	-
$ -	$84,938	$ -	$(45,519)		$197,164	$11,385
$ -	$ -	$ -	$ 1 (4)		$ -	$ -
$ 202	$21,048 (5)	$ -	$ -	138,450	$ 21,250	$ -
$ (117)	$ -		$ 8,630 (6)	44,903	$ 359	$ -
$ 3,484	$58,888 (1)	$ 913	$ -	1,522,500	$61,935	$ -

GENSTAR LIMITED
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SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF,
AND DIVIDENDS RECEIVED FROM AFFILIATES

For the Year Ended December 31, 1978
(thousands of dollars)

1. Purchased for cash.

2. Acquired in exchange for Series D preferred shares.

3. Acquired (eliminated) on amalgamation of Genstar Limited with subsidiaries.

4. Sale for cash at equity value.

5. Purchased for cash and debentures.

6. Disposal of investment and reclassification to current assets.

7. All subsidiaries of the Corporation are 100% owned except Con-Force Costain Concrete Tie Co. Ltd. which is 75% owned.

8. Reconciliation of schedules to financial statements

	Company	Consolidated
Net income of 50% owned companies	$ -	$ (117)
Investment income		
Subsidiaries consolidated - dividend	$ 11,385	$ -
- interest	11,986	-
Unincorporated joint ventures	12,709	-
Other	989	9,723
	$ 37,069	$ 9,723
Investment		
Subsidiaries		
Shares	197,164	-
Advances	212,285	-
	$409,449	$ -
Joint Ventures		
Investment in 50% owned companies		
Shares	-	359
Advances	-	1,350
Investment and advances to unincorporated joint ventures	6,347	43,697
	$ 6,347	$45,406

GENSTAR LIMITED
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SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES

For the Year Ended December 31, 1977
(thousands of dollars)

Column A	Column B	
	Balance at Beginning of Period	
Name of Issuer and Description of Investment	Number of Shares or Units Principal Amount of Bonds and Notes	Amount in Dollars
COMPANY		
SUBSIDIARIES CONSOLIDATED:		
Abbey Glen Property Corporation:		
Common Shares without nominal or par value	1,080,863	7,296
BACM Industries Limited:		
Common Shares of a par value of $5 each	1,559,128	43,097
Con-Force Limited:		
Preferred and Common Shares	-	-
Genstar Development Limited:		
Common Shares of no par value	5,000	5
Genstar Enterprises Limited:		
Preferred and Common Shares without nominal or par value	-	-
Genstar Financial Limited:		
Common Shares without nominal or par value	5	5
Genstar Holdings N.V.:		
Common and Preferred Shares of a par value of 10 and 100 Dutch guilders each respectively	48,600	2,010
Genstar International S.A.:		
Common Shares of a par value U.S. $20 each	500,000	10,062
Genstar Investment Limited:		
Common Shares of a par value of $100 each	6	1
Genstar Marine Limited:		
Preferred and Common Shares of a par value of $1,000 each	31,400	22,888
Genstar Pacific Corporation:		
Common Shares of a par value of $1 each	100	14,172
Genstar Services Limited (formerly Genstar Securities Limited):		
Common Shares without nominal or par value	2,100	2,100
Genstar Western Limited:		
Common Shares of a par value of $10 each	5,000	50
Indussa Corporation:		
Common Shares of a par value of $100 each	15,000	3,460
International Fertilizers Limited:		
Common Shares of a par value of $100 each	12,750	1,436
McAllister Towing and Salvage Ltd.:		
Common Shares without nominal or par value	1,000,000	11,180
McAllister Towing and Salvage Ltd. (formerly 83965 Canada Ltd.):		
Common Shares without nominal or par value	-	-
Miron Company Ltd.:		
Preferred Series A, Class A and ordinary shares	3,725,000	23,910
Redi-Mix Limited:		
Common Shares without nominal or par value	-	-
Other:		
Common and Preferred Shares	102,736	557
		$142,229
50%-OWNED COMPANIES:		
Other:		
Common Shares	6,520	$ 550
CONSOLIDATED		
50%-OWNED COMPANIES:		
Other:		
Common Shares	247,891	$ 11,765 (8)

Column C		Column D		Column E		Column F
Additions		Deductions		Balance at End of Period		
Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons for the Period	Other	Distribution of Earnings by Persons in Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units Principal Amount of Bonds and Notes	Amount in Dollars	Dividends Received During the Period from Investments not accounted for by the Equity Method
-	1,309 (2)	-	-	1,139,028	8,605	94
-	120 (1)	-	(43,217) (3)	-	-	14,680
-	3,964 (3)	-	-	13,000	3,964	-
-	-	-	(5) (6)	-	-	1,007
-	27,149 (3)	-	-	130,800	27,149	-
-	-	-	(5) (6)	-	-	-
-	13,750 (1)	-	14,172 (5)	537,100	29,932	-
-	16,034 (1)	-	-	1,250,000	26,096	-
-	-	-	(1) (6)	-	-	-
-	1 (6)	-	-	31,401	22,889	600
-	-	-	(14,172) (5)	-	-	-
-	2,900 (1)	-	-	5,000	5,000	-
-	-	-	(50) (6)	-	-	-
-	-	-	-	15,000	3,460	-
-	-	-	-	12,750	1,436	-
-	-	-	(11,180) (3)	-	-	-
-	750 (4)	-	-	750	750	-
-	-	-	-	3,725,060	23,910	-
-	3,206 (3)	-	-	223,677	3,206	-
-	740 (3)	-	51 (6)	112,747	1,348	-
$ -	$69,923	$ -	$(54,407)		$157,745	$16,381
$ -	$ -	$ -	$ (549) (7)	-	$ 1	-
$ 501	$ 4,566	$2,613	$ 5,113	3,756,823	$ 9,106	$ -

GENSTAR LIMITED
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SCHEDULE III - INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES

For the Year Ended December 31, 1977
(thousands of dollars)

1. Purchased for cash.

2. Acquired in exchange for Series D preferred shares.

3. Acquired (eliminated) on amalgamation with Genstar Limited of BACM Industries Ltd. and McAllister Towing and Salvage Ltd.

4. Sale of operations to new subsidiary.

5. Exchange of investment for shares of another subsidiary.

6. Sundry charges and transfers.

7. Sale for cash at equity value.

8. Restated for conversion to equity basis of revenue properties previously reported on a consolidated basis.

9. All subsidiaries of the Corporation are 100% owned except Abbey Glen Property Corporation (12%) whose remaining shares are owned by another subsidiary.

10. Reconciliation of schedules to financial statements

	Company	Consolidated
Net income of 50% owned companies	$ -	$ 4,745
Investment income		
Subsidiaries consolidated - dividend	$ 16,381	$ -
- interest	10,096	-
Other	1,962	6,137
	$ 28,439	$ 6,137
Investment in subsidiaries		
Shares	157,745	-
Advances	94,175	-
	$251,920	$ -
Joint Ventures		
Investment in 50% owned companies		
Shares	1	9,106
Advances	-	1,500
Investment and advances to unincorporated joint ventures	-	7,819
	$ 1	$18,425

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SCHEDULE IV - INDEBTEDNESS OF AFFILIATES - NOT CURRENT

For the Year Ended December 31, 1978
(thousands of dollars)

Column A	Column B	Column C
Name of Person	Balance at Beginning of Period	Balance at End of Period
COMPANY		
SUBSIDIARIES CONSOLIDATED:		
Genstar Chemical Inc...............	1,552	- (4)
Genstar Development Limited.......	28,149	- (3)
Genstar Financial Limited.........	40,000	- (2)
Genstar Pacific Corporation.......	12,100	- (2)
Genstar Western Limited...........	946	- (3)
International Fertilizers, Limited	(1,790)	- (4)
Genstar Holding N.V...............	13,763	212,285 (1)
Others............................	(545)	- (4)
	$94,175	$212,285
CONSOLIDATED		
50% OWNED COMPANIES:		
Others............................	$ 1,500	$ 1,350 (2)

(1) Increase represents funds advanced to cover working capital and investment requirements.

(2) Decrease represents repayments of advances.

(3) Amalgamation of subsidiary.

(4) Transfer to current receivables.

GENSTAR LIMITED
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SCHEDULE IV - INDEBTEDNESS OF AFFILIATES - NOT CURRENT

For the Year Ended December 31, 1977
(thousands of dollars)

Column A	Column B	Column C
Name of Person	Balance at Beginning of Period	Balance at End of Period
COMPANY		
SUBSIDIARIES CONSOLIDATED:		
Genstar Chemical Inc.	1,681	1,552
Genstar Development Limited	28,149	28,149
Genstar Financial Limited	40,000	40,000
Genstar International	5,052	- (2)
Genstar Pacific Corporation	8,500	12,100 (1)
Genstar Western Limited	936	946
Indussa Corporation	2,800	- (2)
International Fertilizers, Limited	(1,790)	(1,790)
McAllister Towing and Salvage Ltd.	263	- (2)
Genstar Holding N.V.	-	13,763 (1)
Others	(545)	(545)
	$85,046	$ 94,175
CONSOLIDATED		
50% OWNED COMPANIES:		
Others	$ 4,936 (1)	$ 1,500

(1) Increase represents funds advanced to cover working capital requirements.

(2) Decrease represents repayments of advances.

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SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 1978
(thousands of dollars)

Column A	Column B	Column C	Column D	Column E		Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirement	Other Changes Add (Deduct)- Describe		Balance at End of Period
COMPANY						
Plant sites................	3,877	146	14	(95) 4,020	(1) (2)	7,934
Quarries and gravel deposits	5,694	5	-	95 2,697	(1) (2)	8,491
Buildings..................	53,603	3,012	320	(6,373) 14,844	(1) (2)	64,766
Machinery and equipment.....	154,278	32,577	2,376	6,373 58,033	(1) (2)	248,885
	$217,452	$35,740	$2,710	$79,594		$330,076
CONSOLIDATED						
Plant sites................	16,918	651	1,423	30	(1)	16,176
Quarries and gravel deposits	26,190	87	11,111	95	(1)	15,261
Buildings..................	109,207	4,541	13,737	(6,342)	(1)	93,669
Machinery and equipment.....	519,447	54,691	79,032	6,217	(1)	501,323
	$671,762	$59,970	$105,303	$ -		$626,429

(1) Reclassification of assets.

(2) Represents assets of subsidiaries amalgamated during the year.

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SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 1977
(thousands of dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirement	Other Changes Add (Deduct)- Describe	Balance at End of Period
COMPANY					
Plant sites..............	3,684	10		183 (2)	3,877
Quarries and gravel deposits	4,092	28	4	1,578 (2)	5,694
Buildings................	32,626	17,850		3,127 (2)	53,603
Machinery and equipment...	92,320	52,681	917	10,194 (2)	154,278
	$132,722	$70,569	$921	$15,082	$217,452
CONSOLIDATED					
Plant sites..............	17,122	750	954		16,918
Quarries and gravel deposits	26,474	215	499		26,190
Buildings................	87,836	21,285	815	944 (3) (43) (1)	109,207
Machinery and equipment...	432,387	84,859	10,747	12,905 (3) 43 (1)	519,447
	$563,819	$107,109	$13,015	$13,849	$671,762

(1) Reclassification of assets.

(2) Represents assets of subsidiaries amalgamated effective November 1.

(3) Represents assets of subsidiary at date of acquisition.

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SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 1978
(thousands of dollars)

Column A	Column B	Column C	Column D	Column E		Column F
Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Retirements	Other Changes Add (Deduct)-Describe		Balance at End of Period
COMPANY						
Quarries and gravel deposits................	1,002	98	-	740	(2)	1,840
Buildings................	13,837	1,216	163	(328) 4,691	(1) (2)	19,253
Machinery and equipment...	40,055	19,252	1,926	328 28,847	(1) (2)	86,556
	$54,894	$20,566	$2,089	$34,278		$107,649
CONSOLIDATED						
Quarries and gravel deposits................	3,703	238	655	-		3,286
Buildings................	35,431	16,524	8,298	(20)	(1)	43,637
Machinery and equipment...	215,282	31,882	50,710	20	(1)	196,474
	$254,416	$48,644	$59,663	$ -		$243,397

(1) Reclassification of assets.

(2) Represents accumulated depreciation on assets of subsidiaries amalgamated during the year.

(3) Reconciliation of schedules to financial statements

	Company	Consolidated
Depreciation and depletion of property, plant and equipment............................	20,566	48,644
Depreciation of revenue properties................	-	1,449
Amortization of intangible assets.................	19	88
	$20,585	$50,181

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SCHEDULE VI - ACCUMULATED DEPRECIATION,
DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 1977
(thousands of dollars)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Retirements	Other Changes Add (Deduct)- Describe	Balance at End of Period
COMPANY					
Quarries and gravel deposits...............	265	30		707 (2)	1,002
Buildings................	12,087	1,134		616 (2)	13,837
Machinery and equipment...	31,602	4,721	636.	4,368 (2)	40,055
	$43,954	$5,885	$636	$5,691	$54,894
CONSOLIDATED					
Quarries and gravel deposits...............	3,916	280	492	(1) (1)	3,703
Buildings................	32,440	3,373	344	(38) (1)	35,431
Machinery and equipment...	195,546	28,948	9,251	39 (1)	215,282
	$231,902	$32,601	$10,087	$ -	$254,416

(1) Reclassification of assets.

(2) Represents accumulated depreciation on assets of subsidiaries amalgamated effective November 1.

(3) Reconciliation of schedules to financial statements

	Company	Consolidated
Depreciation and depletion of property, plant and equipment..................................	5,885	32,601
Depreciation of revenue properties................	-	1,959
Amortization of intangible assets.................	-	131
	$5,885	$34,691

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SCHEDULE VII - INTANGIBLE ASSETS

For the Year Ended December 31, 1978
(thousands of dollars)

Column A	Column B	Column C	Column D		Column E	Column F
			Deductions			
Description	Balance at Beginning of Period	Additions at Cost Describe	Charged to Costs and Expenses	Charged to Other Accounts Describe	Other Changes Add (Deduct) Describe	Balance at Close of Period
COMPANY						
Intangible assets arising from amalgamations...	$27,476	$ -	$19	$ -	$5,893 (1)	$33,350
CONSOLIDATED						
Intangible assets arising from acquisitions....	$34,474	$ -	$88	$ -	$ -	$34,386

(1) Represents goodwill of subsidiaries amalgamated during the year.

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SCHEDULE VII - INTANGIBLE ASSETS

For the Year Ended December 31, 1977
(thousands of dollars)

Column A	Column B	Column C	Column D		Column E	Column F
			Deductions			
Description	Balance at Beginning of Period	Additions at Cost Describe	Charged to Costs and Expenses	Charged to Other Accounts Describe	Other Changes Add (Deduct) Describe	Balance at Close of Period
COMPANY						
Intangible assets arising from amalgamations...	$7,486	$ -	$ -	$ -	$19,990 (1)	$27,476
CONSOLIDATED						
Intangible assets arising from acquisitions...	$34,576	$ 29	$131	$ -	$ -	$34,474

(1) Represents goodwill of subsidiaries amalgamated effective November 1.

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SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Year Ended December 31, 1978
(thousands of dollars)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe	Deductions Describe	Balance at End of Period
COMPANY					
DEDUCTED FROM ACCOUNTS RECEIVABLE:					
Allowance for doubtful accounts...............	416	1,045	3,401 (2)	402 (1)	4,460
DEDUCTED FROM INVESTMENTS:					
Investment reserve.......	370	-	-	-	370
INCLUDED IN ACCRUED LIABILITIES:					
Provision for grinding balls and refractories.......	366	1,252	-	954 (3)	664
Provision for claims.....	16	54	-	16 (4)	54
	382	1,306	-	970	718
	$1,168	$2,351	$3,401	$1,372	$5,548
CONSOLIDATED					
DEDUCTED FROM ACCOUNTS RECEIVABLE:					
Allowance for doubtful accounts...............	4,524	1,607	1,191 (2)	1,240 (1)	6,082
DEDUCTED FROM INVESTMENTS:					
Investment reserve.......	563	800	-	-	1,363
INCLUDED IN ACCRUED LIABILITIES:					
Provision for grinding balls and refractories........	492	1,880	-	1,463 (3)	909
Provision for claims......	272	152	-	72 (4)	352
	764	2,032	-	1,535	1,261
	$5,851	$4,439	$ 1,191	$2,775	$8,706

1. Bad debts written-off.
2. Represents:

	Company	Consolidated
Bad debt recoveries....................	-	21
Reallocation of reserve...............	-	1,170
Assumed on amalgamation of subsidiaries	3,401	-
	$3,401	$1,191

3. Recharge and rebricking costs.
4. Claim settlement.

GENSTAR LIMITED
AND
GENSTAR LIMITED AND SUBSIDIARIES

SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Year Ended December 31, 1977
(thousands of dollars)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe	Deductions Describe	Balance at End of Period
COMPANY					
DEDUCTED FROM ACCOUNTS RECEIVABLE:					
Allowance for doubtful accounts.............	265	96	154 (2)	99 (1)	416
DEDUCTED FROM INVESTMENTS:					
Investment reserve......	-	370	-	-	370
INCLUDED IN ACCRUED LIABILITIES:					
Provision for grinding balls and refractories......	360	954	(948) (2)	-	366
Provision for claims....	-	3	13 (2)	-	16
	360	957	(935)	-	382
	$625	$1,423	$(781)	$99	$1,168
CONSOLIDATED					
DEDUCTED FROM ACCOUNTS RECEIVABLE:					
Allowance for doubtful accounts.............	3,759	1,515	666 (2)	1,416 (1)	4,524
DEDUCTED FROM INVESTMENTS:					
Investment reserve......	666	370	-	473 (4)	563
INCLUDED IN ACCRUED LIABILITIES:					
Provision for grinding balls and refractories......	491	1,526	-	1,525 (3)	492
Provision for claims....	331	(35)	-	24 (5)	272
	822	1,491	-	1,549	764
	$5,247	$3,376	$666	$3,438	$5,851

1. Bad debts written-off.
2. Represents:

	Company	Consolidated
Bad debt recoveries..................	-	485
Reallocation of reserve..............	(952)	181
Assumed on amalgamation of subsidiaries	171	-
	$(781)	$ 666

3. Recharge and rebricking costs.
4. Investments written-off.
5. Claim settlement.

GENSTAR LIMITED
AND
GENSTAR LIMITED AND SUBSIDIARIES

SCHEDULE XIII - CAPITAL SHARES

As at December 31, 1978
(thousands)

Column A	Column B	Column C	Column D	
			Number of Shares Included in Column C which are	
Name of Issuer and Title of Issue	Number of Shares Authorized by Charter	Number of Shares Issued and not Retired or Cancelled	Held by or for Account of Issuer thereof	Not Held by or for Account of Issuer thereof
GENSTAR LIMITED				
Preferred Shares Series A, B, and D - without nominal or par value	5,000	514	-	514
Second Preferred Shares Series A without nominal or par value	20,000	1,000	-	1,000
Common Shares - without nominal or par value......................	Unlimited	14,222	806	13,416
SUBSIDIARIES CONSOLIDATED(1)				
First American Title Guarantee Company Common Shares - par value $50 each...........	30	21	-	21
Con-Force Costain Concrete Tie Co. Ltd.	2,000	2,000	-	2,000

1. All of the outstanding shares of subsidiaries are held by the Company, and no shares of shown above, and, accordingly; information as to the capital shares of such subsidiaries

2. Represents minority interests in subsidiary.

Column E		Column F		Column G	
Shares Issued or Outstanding as Shown on or Included in Related Balance Sheet under Caption "Capital Shares"		Number of Shares Held by Affiliates for which Statements are Filed herewith		Number of Shares Reserved for Options, Warrants Conversions and Other Rights	
Number	Amount at which Shown	Persons Included in Consolidated Statements	Others	Directors, Officers and Employees	Others
514	$ 10,291	-	-	-	157
1,000	$120,000	-	-	-	-
13,416	$183,370	-	-	48	1,121
6	$ 923 (2)	15	-	-	-
500	$ 216 (2)	1,500	-	-	-

subsidiaries are reserved for options, warrants, conversions, or other rights, except as has been omitted.

GENSTAR LIMITED
AND
GENSTAR LIMITED AND SUBSIDIARIES

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

As at December 31, 1978
(thousands of dollars)

Column A	Column B
Item	Charged to Costs and Expenses
COMPANY	
Maintenance and repairs	$20,491
Depreciation and depletion	20,566
Amortization of intangible assets	19
Taxes, other than income	4,861
Rents	3,672
Royalties	235
Advertising costs	739
Research and development	453
	$51,036
CONSOLIDATED	
Maintenance and repairs	$ 64,302
Depreciation and depletion	50,093
Amortization of intangible assets	88
Taxes, other than income	14,698
Rents	8,076
Royalties	621
Advertising costs	4,571
Research and development	518
	$142,967

GENSTAR LIMITED
AND
GENSTAR LIMITED AND SUBSIDIARIES

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

As at December 31, 1977
(thousands of dollars)

Column A	Column B
Item	Charged to Costs and Expenses
COMPANY	
Maintenance and repairs	10,033
Depreciation and depletion	5,885
Taxes, other than income	1,579
Rents	1,815
Royalties	133
Advertising costs	636
Research and development	46
	$20,127
CONSOLIDATED	
Maintenance and repairs	55,128
Depreciation and depletion	34,560
Amortization of intangible assets	131
Taxes, other than income	12,683
Rents	6,375
Royalties	1,055
Advertising costs	3,997
Research and development	312
	$114,241

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

SCHEDULE III -- INVESTMENTS IN, EQUITY IN EARNINGS OF, AND

DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

For the years ended December 31, 1978 and 1977

(In thousands of dollars)

Col. A	Col. B		Col. C		Col. D		Col. E	
	Balance at Beginning of Period		Additions		Deductions		Balance at End of Period	
Name of Issuer and Description of Investment	Number of Shares or Units	Amount	Equity taken up in earnings (losses) of affiliates and other persons for the period (1)	Other	Distribution of earnings by persons in which earnings (losses) were taken up	Other	Number of Shares or Units	Amount
1978:								
Investments in Associated Companies:								
Adobe Oil & Gas Corporation,								
common stock	1,400,000	$22,331	$ 908		$ 252		1,400,000 (2)	$22,987
Other companies		1,544	(256)	$ 589	-			1,877
		23,875	652	589	252			24,864
Hajoca Corporation,								
common stock	990,026	14,961	265		-	$6,712 (3)	990,026 (4)	8,514
		$38,836	$ 917	$ 589	$ 252	$6,712		$33,378
1977:								
Investments in Associated Companies:								
Adobe Oil & Gas Corporation,								
common stock	1,400,000	$21,893	$ 662		$ 224		1,400,000	$22,331
Other companies		26	-	$1,518	-			1,544
		21,919	662	1,518	224			23,875
Hajoca Corporation,								
common stock	990,026	14,830	131	-	-		990,026	14,961
		$36,749	$ 793	$1,518	$ 224			$38,836

(1) Included in "Other Income, net" in the accompanying Statements of Income.

(2) The Company's investment in Adobe Oil & Gas Corporation represents 20.7% of Adobe's outstanding common stock and 19.7% of Adobe's outstanding voting stock.

(3) Writedown to estimated net realizable value. See Note 12 to Financial Statements.

(4) The Company's investment in Hajoca Corporation (formerly ' ?le Industries, Inc.) which is included in Other Assets, represents 44.4% of Hajoca's outstanding stock.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

SCHEDULE V -- PROPERTY, PLANT AND EQUIPMENT

for the years ended December 31, 1978 and 1977

(in thousands of dollars)

Col. A	Col. B Balance Beginning of Period	Col. C Additions at Cost	Col. D Retirements	Col. E Other Changes Add (Deduct)	Col. F Balance at End of Period
1978:					
Land	$ 9,070	$ 521	$ 686		$ 8,905
Mining properties and rights	19,140	1,846	136		20,850
Buildings and land fixtures	87,656	3,658	4,559	$463 (1) 26 (2)	87,244
Machinery, equipment and furniture	281,380	45,498	16,510	(26) (2)	310,342
Construction in progress	16,367	(6,283)			10,084
	413,613	45,240 (3)	21,891	463	437,425
Assets held under capital leases:					
Land and buildings	10,130				10,130
Machinery and equipment	58,191	4,988	1,409		61,770
	68,321	4,988	1,409		71,900
	$481,934	$ 50,228	$23,300	$463	$509,325
1977:					
Land	$ 9,255	$ 85	$ 270		$ 9,070
Mining properties and rights	19,788		648		19,140
Buildings and land fixtures	89,682	1,880	5,433	$1,527 (2)	87,656
Machinery, equipment and furniture	300,390	17,891	35,374	(1,527) (2)	281,380
Construction in progress	6,699	9,668			16,367
	425,814	29,524 (3)	41,725 (4)	-	413,613
Assets held under capital leases:					
Land and buildings	10,130				10,130
Machinery and equipment	54,654	5,406	1,869		58,191
	64,784	5,406	1,869		68,321
	$490,598	$ 34,930	$43,594	-	$481,934

NOTES:
(1) Leasehold improvements reclassified from Other Assets.
(2) Reclassifications.
(3) Additions for 1978 and 1977 include $11,400 and $10,300, respectively, related to the expansion of the Nelson, Arizona lime plant.
(4) Retirements in 1977 include $22,380 related to assets of operations discontinued or terminated during 1976.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

SCHEDULE VI -- ACCUMULATED DEPRECIATION, DEPLETION and

AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

for the years ended December 31, 1978 and 1977

(in thousands of dollars)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions Charged to Costs and Expenses	Col. D Retirements	Col. E Other Changes Add (Deduct)	Col. F Balance at End of Period
1978:					
Allowances for depreciation, depletion and amortization of property, plant and equipment:					
Mining properties and rights	$ 4,882	$ 564	$ 134	-	$ 5,312
Buildings and land fixtures	38,386	2,633	2,760	$ 73 (1) 3 (2)	38,335
Machinery, equipment and furniture	154,390	14,196	14,566	(42) (2) 597 (3)	154,575
Provision for loss on disposal	962	600 (4)		39 (2) 8 (3)	1,609
	198,620	17,993	17,460	678	199,831
Assets held under capital leases:					
Land and buildings	2,641	488			3,129
Machinery and equipment	16,713	5,450	834		21,329
	19,354	5,938	834		24,458
	$217,974	$23,931	$18,294	$ 678	$224,289
1977:					
Allowances for depreciation, depletion and amortization of property, plant and equipment:					
Mining properties and rights	$ 4,711	$ 535	$ 364	-	$ 4,882
Building and land fixtures	37,973	2,781	3,354	$ 976 (2) 10 (3)	38,386
Machinery, equipment and furniture	168,246	15,152	28,776	(976) (2) 744 (3)	154,390
Provision for loss on disposal	5,300			(4,338) (5)	962
	216,230	18,468	32,494 (6)	(3,584)	198,620
Assets held under capital leases:					
Land and buildings	2,153	488			2,641
Machinery and equipment	12,806	5,061	1,154		16,713
	14,959	5,549	1,154		19,354
	$231,189	$24,017	$33,648	$(3,584)	$217,974

NOTES:
(1) Allowance for amortization of leasehold improvements reclassified from Other Assets.
(2) Reclassifications.
(3) Proceeds on removals.
(4) Provision for writedown of assets to estimated realizable value.
(5) Loss on disposal of assets related to operations discontinued or terminated during 1976.
(6) Retirements in 1977 include $14,171 related to assets of operations discontinued or terminated during 1976.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

SCHEDULE XII -- VALUATION and QUALIFYING ACCOUNTS AND RESERVES

for the years ended December 31, 1978 and 1977

(in thousands of dollars)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	at End of Period
1978:					
Valuation account deducted in balance sheet from asset to which it applies:					
Allowance for doubtful items and discounts	$6,695	$16,583	$231 (1)	$14,624 (2) 2,141 (3)	$6,744
1977:					
Valuation account deducted in balance sheet from asset to which it applies:					
Allowance for doubtful items and discounts	$5,488	$15,703	$296 (1)	$13,531 (2) 1,261 (3)	$6,695

NOTES:

(1) Recoveries of accounts written off in prior years.

(2) Trade allowances and cash discounts given to customers.

(3) Accounts written off.

THE FLINTKOTE COMPANY and CONSOLIDATED SUBSIDIARIES

SCHEDULE XVI -- SUPPLEMENTARY INCOME STATEMENT INFORMATION

for the years ended December 31, 1978 and 1977

(in thousands of dollars)

Col. A	Col. B Charged to Costs and Expenses	
	1978	1977
Maintenance and repairs	$53,934	$44,931
Depreciation and depletion of property, plant and equipment	23,331	24,017
Taxes, other than income taxes:		
Social security and unemployment insurance	9,155	7,649
Real estate and personal property	4,704	5,067
Other	1,569	1,419
Rents	10,011	6,819

Printed in Canada

GENSTAR

AR34

Introduction

Dynamic, resourceful, international in outlook, Genstar draws its strength from well-balanced diversification.

Through its operating divisions, the company is a leader in a variety of industries in Canada, and is active in the United States and overseas as well.

After more than a decade of well planned growth, Genstar has taken its place as one of the 25 largest corporations in Canada, employing more than 12,000 people.

The company is engaged in many facets of construction ranging from hydro-electric dam projects to the installation of municipal services and subdivision developments. The company is a major force in land development and house building, the manufacture and distribution of building materials and cement, commercial property development and management, tug and barge transportation, and the production of chemicals and fertilizers.

Outside of Canada, Genstar is a successful property developer and home-builder in the United States, has been involved in construction projects in Haiti and Sri Lanka, and is an active partner in specialized marine ventures operating world-wide.

Genstar is also engaged in the import and export of industrial minerals through its trading operations based in New York. The company imports zinc into the United States from Europe and Africa, agricultural and industrial chemicals from Canada and Belgium, and exports non-ferrous metals and industrial products to Europe and mining equipment to Africa. A venture capital division, located in California, helps organize and provide equity capital for new and fast-growing young companies chiefly in high-technology fields. This venture capital investment portfolio holds shares in approximately 30 companies.

Inside cover: Tug and barge speeds oil rig ocean voyage

Cement

On completion of present expansion programs, the combined annual production capacity of Genstar's cement divisions will be over 3,700,000 tons. With plants located in five Canadian provinces, Genstar is one of the leaders in the cement industry in Canada.

The company has been investing heavily to expand its cement production facilities and is currently spending $100 million to build a new 1.1 million tons per year plant near Vancouver, British Columbia.

In order to keep abreast of the growing Western Canadian economy, the company's Edmonton, Alberta plant is in the second phase of a multi-stage expansion program to accommodate a new dry-process kiln which could increase the capacity of this plant by 85 per cent over the next few years. Total cost of the expansion on completion will be $60 million.

Genstar divisions make normal portland cement as well as specialty products such as high early strength, sulphate resistant, oil-well and masonry cements.

Above: Genstar's Edmonton, Alberta cement plant
Lower left: Quarrying limestone for the Montreal, Quebec cement plant
Lower right: Crushed limestone stockpile

Besides meeting the requirements of Canadian customers and its own home-building, building products and construction activities, the company has substantial long-term contracts to export cement and clinker to the Northwestern United States and Alaska.

In Eastern Canada, Genstar manufactures a full range of cement and specialty cement products at a plant in Montreal. Cement and clinker from this plant are also shipped to Western Canada, and exported to the Eastern Seaboard of the United States from Maine to Florida.

Through association with S. A. Cimenteries C.B.R. of Belgium, an affiliate of Société Générale de Belgique, and the Associated Portland Cement Manufacturers Limited of England, the company has ready access to the very latest in cement technology and expertise.

Above left: Bulk delivery of cement
Left center: Wet process kiln
Lower left: Central control computer at Edmonton plant
Right: Storage silos at new Vancouver, B.C. plant


INLAND

Building Materials

Genstar operating divisions produce and distribute a broad range of building products, from precast concrete members for stadiums and bridges to sheets of gypsum wallboard for the interiors of homes and buildings. The volumes of concrete, aggregates and concrete products produced make Genstar the largest integrated concrete materials operation in Canada.

Genstar building materials are produced at over 100 plants located in strategic market areas in six Canadian provinces. The company is one of the leading Canadian producers of several lines of building products with yearly outputs totalling 265,000 tons of concrete pipe, 35 million units of concrete blocks, nearly three million cubic yards of ready-mix concrete, and 223 million square feet of gypsum wallboard. Production of sand, crushed stone, gravel and shale aggregates total over 15 million tons annually and are supplied from numerous pits and quarries to Genstar's own manufacturing and construction units, and to other contractors.

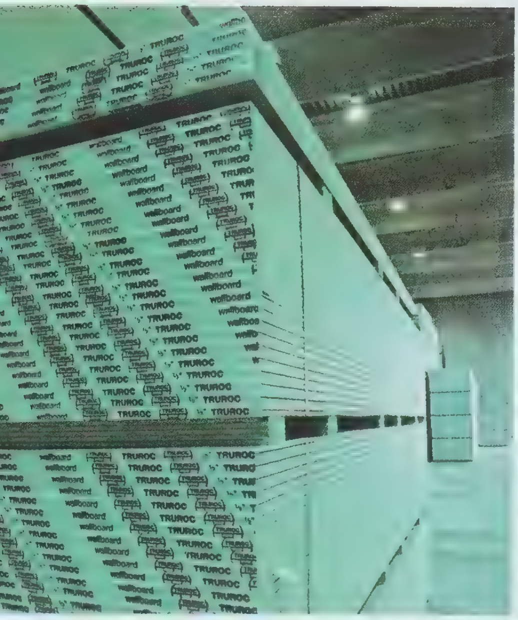
Left: Producer's Pit gravel processing plant near Victoria, B.C.
Above right: On-site delivery of ready-mix concrete
Right center: Hollow-core, precast floor units
Lower right: Concrete pipe for municipal sewer and water mains

The company is the nation's largest producer and erector of pre-cast and pre-stressed concrete structural and architectural components such as pre-cast exterior and interior wall panels, floor units, structural columns, beams, joist units and stairs for apartment and office buildings. The company also produces and erects precast concrete piles and dock units for port expansions, I-beams and girders for bridges, overpasses, viaducts and elevated expressways, and special frame units for stadiums, arenas and clear-span industrial buildings.

In Eastern Canada Genstar extracts, manufactures and markets a range of building materials that includes concrete pipe and block, ready-mix concrete, sand and aggregate.

Under the general heading of building materials is Genstar's joint venture with Costain Concrete of the United Kingdom to manufacture concrete railway ties at a new plant in Edmonton capable of turning out 300,000 ties a year. The potential for concrete ties, with their low replacement/maintenance rates, is impressive. The Genstar-Costain venture was launched to compete in the market for the replacement of wooden ties in all of North America, including Mexico.

Above left: Truroc gypsum wallboard
Above center: Production and handling of aggregate
Above right: Con-Force Costain concrete rail-ties
Lower left: Calgary International Airport terminal building with pre-cast components
Lower right: Pre-cast concrete sections for office and apartment buildings


TRUROC
wallboard



Housing and Land Development

Genstar divisions are active in home-building from the Canadian Arctic to Southern California and from British Columbia in the West to Ontario and Quebec in the East.

The company holds large land banks in Canada and is continually at work improving the land it assembles through construction and installation of sewers, water distribution systems, roads, sidewalks, street lighting and other facilities.

The company's activities in the residential field feature "total community planning" which includes essential elements such as schools, shopping, and recreational facilities.

Genstar has developed communities for tens of thousands of people built around large man-made lakes with adjacent parkland to provide year-round recreation. Strict architectural controls ensure that all of the elements blend harmoniously to provide character. The first of these communities, Lake Bonavista in Calgary, Alberta, was designed for a population of 36,000.

Genstar's role in residential development in Western Canada has expanded considerably while at the same time the company has established itself as a major land developer in Ontario, the largest provincial market. Current land holdings in Canada and the United States total approximately 40,000 acres.

Above: Lakes Bonavista (top) and Bonaventure (bottom) are features of total community development
Lower left: Serene surroundings complement company housing in Southern California
Lower right: Single family condominium housing for UMEX mine development at Pickle Lake, Northern Ontario

A substantial number of Genstar homes are constructed of pre-assembled sections and component packages designed and manufactured at company plants in Calgary, Alberta and Woodstock, Ontario. These are also sold to other home-builders. The company builds homes with conventional on-site methods as well.

The company has provided housing in remote or new town developments for Great Canadian Oil Sands Ltd. in Fort McMurray, Alberta; Union Minière Explorations and Mining at Pickle Lake, Ontario; Noranda Mines at Granisle and Houston, British Columbia; Sherritt Gordon Mines at Leaf Rapids, Manitoba, and for several other resource towns in Canada.

In the Western United States, Genstar's home-building activities include projects in San Diego County, Orange County, Los Angeles County, and Northern California. These projects represent over 4,000 homes to be constructed over a period of three to four years. The company is also involved in joint venture projects producing single family and condominium housing.

Above left: Quality homes are the key to Genstar's success in housing developments
Above center: Apartment building of pre-cast components in Alberta
Above right: Single family housing at Fort McMurray near Alberta oil sands
Below: Pre-assembled sections and component packages for single family homes

Commercial Properties

For some years Genstar has been involved in the development of shopping center properties in California and more recently in Nevada and Washington as well, providing a full turn-key service reaching from market analysis and site selection to recruitment of management for a completed center. Recently, the company has become involved in a large condominium project in Houston, Texas.

Also in the commercial property development and management field, Genstar has a portfolio of income-producing properties which include office, commercial, hotel and shopping center developments and industrial park complexes.

These properties are located in Edmonton, Calgary, Medicine Hat, Regina, Winnipeg, Toronto, Montreal, Quebec City and the New York area. The company has broadened its geographic range in Ontario and the Eastern U.S. and put more emphasis on one dimension of its "integrated growth" strategy—that of developing income-producing commercial buildings in the new residential communities that arise from its land-assembly and home-building activities.

Left: Shopping center in Western Canada
Above right: Completed shopping center in California
Right center: Office tower in Toronto, Ontario
Lower right: New hotel building in Calgary, Alberta


JACK FRASER


JCPenney


123 EDWARD ST

Construction

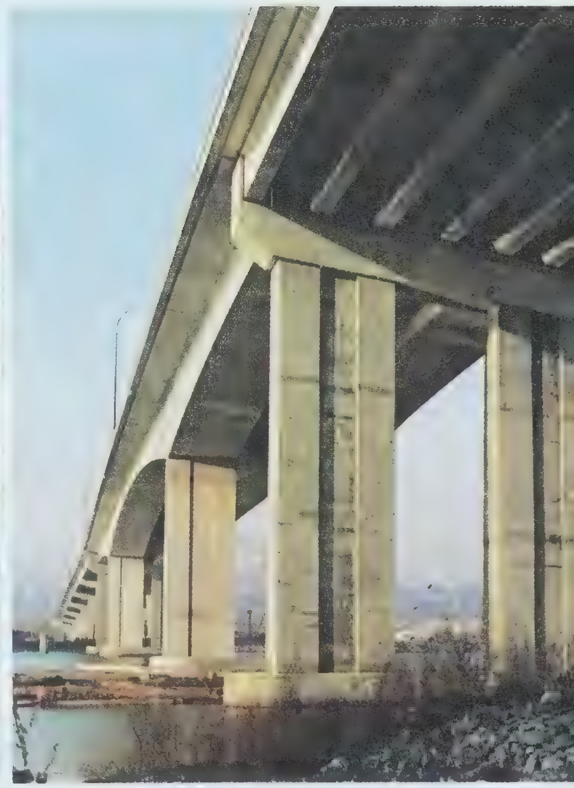
Genstar's construction arm has tackled some of the major projects in a nation famed for large-scale developments — hydro-electric dams and generating stations, mining projects, roads and bridges in the remotest wilderness areas.

Genstar units can be found at work on such diverse undertakings as the new Calgary International Airport, the Montreal Metro and Edmonton Rapid Transit System, erecting high-voltage transmission towers in Northern Manitoba, laying out a townsite for resource developments like the Alberta tar sands, or altering the course of large, swift-flowing rivers like Manitoba's Nelson, to generate hydropower.

The construction division functions in two different markets: heavy construction and municipal services. In the latter field Genstar prepares and paves access roads, installs water and sewer systems, and undertakes special projects such as preparing the base for artificial playing surfaces in the Calgary and Vancouver stadiums and the Montreal Olympic Stadium.

The company has participated in some of the largest hydro projects in the country from the Nelson River dams in Manitoba, to James Bay in Quebec and Churchill Falls in Labrador.

Above left: Hydro-electric dam under construction in Northern Manitoba
Above right: Concrete bridge after completion
Lower left: Work on a Montreal subway extension
Lower right: Laying out part of the town-site at Fort McMurray, Alberta

The company has managed and worked successfully in joint ventures with other large construction firms, and has the proven capability to co-ordinate all of its own construction activities on a given project, from clearing initial access routes, to basic site preparation, to construction of the main facility, to the planning and development of a serviced townsite—including building the homes and supplying all the amenities to go with it.

The construction division in Canada is as wide-spread and diverse as its parent company. Whether installing municipal services in Eastern Canada, doing mine development work in Northern Ontario, working on an oil recovery plant in the Athabasca Tar Sands of Alberta, building a cement plant in Vancouver for another division, or constructing a modern airport in Sri Lanka, Genstar Construction has done it all.

Above left: Excavation work at the Syncrude project in Northern Alberta
Above right: Sidewalks are only one part of the development package
Lower left: Municipal storm sewer installation
Lower right: The Edmonton Rapid Transit System

Chemicals and Fertilizers

Genstar Chemical Limited is one of the major manufacturers of nitrogen chemicals and mixed fertilizers in Canada. These products are consumed in the pulp and paper, mining, steel and construction industries, as well as in agricultural markets.

The company has been expanding steadily to improve its market impact since 1961, when a major new complex at Maitland, near Brockville, Ontario was brought on stream. Initial production included anhydrous and aqua ammonia, ammonium nitrate, nitric acid, nitrogen fertilizer solutions and the industrial gases: hydrogen, nitrogen and carbon dioxide. In 1966 urea was added to the manufactured product line and a second nitric acid facility constructed. In 1976, a tripling of the ammonium nitrate capacity was completed to meet the needs of the expanding fertilizer and explosives markets. A doubling of the nitric acid facility produced the largest single-site nitric capacity in Canada.

Genstar Chemical has built up a solid production and distribution network to serve retail agricultural markets in Eastern Canada and the North-eastern United States. The company's fourteen mixed fertilizer plants in Canada, and one each in the states of Maine and Vermont, provide a combined annual capacity of over half a million tons. More recently, the "Nutrite" fertilizer trademark has been successfully introduced into the lawn and garden consumer market.

Genstar Chemical, through a U.S. subsidiary, provides blasting products and consulting services to clients such as the U.S. Steel Co., Eveleth Taconite Co., Reserve Mining Co., and Anamax Copper Co., in the Mesabi iron range of Minnesota and in other areas of the Western United States.

Left: Chemical plant at Maitland, Ontario
Above right: Monitoring the various plant processes
Lower right: "Nutrite" brand fertilizers are produced for the agricultural market

Genstar Marine

In Canada Genstar Marine operates on both the Atlantic and Pacific oceans, the St. Lawrence River system, the Great Lakes and the St. Clair River. The array of services include tug and barge transportation, ferrying, berthing, lighterage, salvage, pollution control, shipbuilding and ship repair, plus specialized sea and river transportation adapted to the demanding conditions of the Canadian Arctic.

The most extensive operations are on Canada's West Coast, where a fleet of 40 tugs and 230 barges carry bulk cargos such as logs, wood chips, limerock, pulp and paper, lumber, petroleum products and chemicals—the latter two in specially-designed tanker barges. Of the tugs in Genstar's West Coast service, several are manned and equipped for ship salvage on the high seas. One example of the company's pre-eminence in coastal barging is that it owns and operates the largest self-loading and dumping log transporter in the world.

Also on the West Coast Genstar operates rail car barges and terminals servicing major Canadian and U.S. railroads. The shipbuilding facilities in Vancouver and Victoria offer complete drydocking and repair services. The Vancouver shipyard—where the Genstar fleet is serviced and where a number of its tugs have been built—is capable of constructing vessels of up to 50,000 deadweight tons.

In the East, the company moves rail car barges on scheduled service in the Detroit-St. Clair River area, has a fleet of tugs working on shipdocking in the Port of Montreal, and has ship salvage and pollution control teams covering both the Atlantic and inland waters.

Above left: Seaspan Forester, the world's largest self-dumping log transporter
Above right: A new addition to Genstar's fleet of modern tugs
Lower left: Barges are designed to meet customer's specialized needs
Lower right: Rail car ferry service on Canada's West Coast


SEASPAN CUTLASS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In Canada's North, Genstar operates barges on the Mackenzie River system as a one-third partner in Arctic Transportation Ltd., a specially equipped Arctic marine operation. Other ATL partners are Federal Commerce and Navigation Ltd. of Montreal and Crowley Maritime Corporation of San Francisco. With experience in ice reconnaissance and the special equipment for Arctic discharge, ATL has taken on consignments from Canada, the U.S. and Japan. The joint venture has delivered large quantities of stores, equipment, rolling stock, prefabricated plant modules, and pipe to the oil industry and pipeline projects in the U.S. and Canadian Arctic.

These annual "sea-lifts" to Arctic ports, in which the company as a participant in ATL takes part, are among the biggest convoys since World War II. ATL, together with its Kaps Marine subdivision based on the Mackenzie River, is currently servicing Imperial Oil exploration projects in the Beaufort Sea and is prepared to service oil and gas pipeline construction through the Mackenzie River Valley.

Genstar Overseas

While in most of the world the tugboat is used primarily for salvage, berthing and towing, on the West Coast of North America it is the power unit of a versatile transportation system. Company tugs can be found collecting barge cargo in Mexico, Japan and the U.S. Northwest. And, in association with partners in three joint ventures, the company exports its tug and barge capabilities on a world scale.

Genstar Overseas Limited of Hamilton, Bermuda, is a one-third partner in the Global Transport Organisation, which has contracts to supply port lighterage and heavy lift services for oil projects in Saudi Arabia. The other partners are Crowley Maritime Corporation of the U.S. and Federal Pacific Limited, a member of the Federal Commerce Group.

Above left: A 457-foot truck trailer ferry under construction at the company's Vancouver Shipyards
Above right: Tugs Hooper and Taglu are part of the ATL fleet
Lower left: Self-propelled rail-car barges in B.C.
Lower right: Building modules being barged to destination in the Arctic



ARCTIC HOOFER

GTO, together with Compagnie Maritime Belge of Antwerp, has established a scheduled service, called EAST (Euro-Arab Sea Trailer Line, S.A.) between Marseilles and the Red Sea port of Yanbu. The line employs tri-level roll-on roll-off barges each designed to carry up to 260 containers or trailers. A trucking company has been formed by EAST in partnership with Yusuf Bin Ahmed Kanoo, the well-known Saudi trading and agency company, to handle distribution of the trailers on arrival in Saudi Arabia.

Operating world-wide, GTO specializes in the trans-oceanic movement of pipe, construction equipment, rolling stock and prefabricated housing units using barges measuring 100 x 400 feet, designed for cargos of up to 17,000 tons and loads too large for conventional ships. Prefabricated plant modules standing nine stories high have been transported to Alaska on this equipment, and a 9,500 ton jack-up drill rig was loaded on a GTO barge and towed from Houston, Texas to Bombay, India in half the normal time. And yet this tug and barge system is also capable of landing cargo in less than six feet of water — an important consideration in many parts of the world.

Genstar Overseas also has a one-third interest in Union Towing and Transportation Company U.K. (UNITOW), which provides tugs for barge transportation and anchor handling for oil-drilling and pipe laying operations in the North Sea. UNITOW provides a comprehensive towing and barge service, combining experience, proven operational capabilities, and an adaptable approach to customer's needs. It has offices in London and Great Yarmouth in England and in Antwerp, Belgium. The North Sea and Mediterranean Sea offer excellent potential for the specialized shipping methods perfected by UNITOW partners which, besides Genstar, include Crowley Maritime Corporation of San Francisco, and Union de Remorquage et de Sauvetage S.A. of Antwerp, Belgium.

Above left: The 9,000 HP tug Seaspan Royal is currently in the North Sea with UNITOW
Right: The specialized capabilities of GTO provide new methods for long-distance towing of unconventional cargo
Lower left: Triple deck roll-on roll-off barge loading in France: destination — Saudi Arabia

Management

Genstar is a diversified operating industrial company organized on divisional lines.

While divisional management exercises a high degree of decision-making autonomy, corporate management has the responsibility of planning and allocating funds among the different divisions for the benefit of the company as a whole.

Corporate management co-ordinates all company activities so that it can take an integrated, completely self-contained approach to a project of any magnitude.

The company took its present form in 1965 with the amalgamation of its three major subsidiaries—Inland Cement, Brockville Chemical Industries and Iroquois Glass—into a single operating company. Since that time the glass operations have been sold and the company has entered other businesses.

Genstar's growth in the last ten years has been dramatic—the result of both internal expansion and acquisitions. It has been based on a solid financial foundation. With assets of $1.2 billion and sales approaching $1 billion, Genstar's mix of activities yields the cost advantages of vertical integration and ensures the stability, productivity and profitability of the company as a whole.

The company has the capability of applying its resources to any project, anywhere in the world, whether they be financial resources, the skill resources of its many engineers, planners, developers and managers, or material resources, such as equipment and products.

Experience gained from diversified, worldwide operations, sometimes in partnership with other well-known companies, enables Genstar to work in any climate, in any language.

The company sees many exciting possibilities to expand aggressively into U.S. and international markets with clearly defined objectives and strong management capabilities.

Shares of Genstar are traded under the symbol GST on the New York, Toronto, Montreal, Alberta and Vancouver Stock Exchanges and on the Brussels and Antwerp Bourses.

Inside cover: Jenpeg hydro-electric project on the Nelson River in Northern Manitoba

GENSTAR

Genstar Limited
Suite 4105, One Place Ville Marie
Montreal, Canada. H3B 3R1

GENSTAR

f. file

Remarks by
ANGUS A. MacNAUGHTON
Vice Chairman of the Board

and
ROSS J. TURNER
President

at the annual meeting of
the shareholders of

GENSTAR LIMITED

MONTREAL, CANADA
17 May 1978

A.A. MacNaughton

Our results for 1977 showed increases for the seventh consecutive year, in revenues, net income, earnings per share and in dividends. We are confident about 1978 also and expect some modest improvement in our results for the year.

I don't intend repeating all the numbers from our annual report, but I would like to point out that over the past five years dividends have grown at a compound annual rate of 17 per cent, revenues at 23 per cent and earnings per common share at 26 per cent.

Genstar ranks among the top 25 industrial companies in Canada in terms of sales, assets and net income.

Compared to over 1,000 U.S. corporations listed in the Forbes Magazine annual survey of industrial companies, Genstar would rank 92nd in terms of five-year average growth in earnings per share, and second in the category of 24 major diversified companies.

The average price of a Genstar common share has increased from $16.50 on May 17, 1973 to about $27.00 today and

dividends over this five-year period amounted to $5.89. This represents an average annual return to the investor of 20 per cent.

First Quarter

For the first quarter of this year net income was $9.5 million or 72 cents per common share compared to $8.9 million or 70 cents per common share last year. Revenues for the quarter were $185 million compared to a restated $184 million last year.

The restatement reflects the recently completed sale of the company's import-export division based in New York. This agency operation had limited growth potential and, following the sale of the steel fabricating and warehousing activities in Texas and in Chicago, marks the end of our involvement in this area of activity.

Included in 1978 revenues is Genstar's share of the net contribution from Alberta Land Development Company, a partnership formed for the development and sale of substantially all of our residential and commercial land holdings in Alberta. Other partners in the venture are ATCO Industries Ltd. and two Canadian banks. Early in May, Genstar made a $117 million capital withdrawal

from the partnership which was used to reduce short-term borrowings, resulting in a substantial improvement in working capital and debt-to-equity ratio.

First quarter earnings, while satisfactory, reflect an unrealized loss of $2.4 million on translation of the accounts of U.S. subsidiaries into Canadian dollars. Lower income taxes during the quarter had a favorable effect on net income and results from the application of the manufacturing tax rate to the earnings of a larger portion of the company's operations.

Increased volume in the Western Canadian land operations, including Alberta Land Development Company, the sale of a venture capital portfolio investment, and improved results of the West Coast marine division contributed to the increase in income in the first quarter. Land sales in the first quarter were considerably stronger than in the same period last year as a result of an accelerated land servicing program to staisfy continued strong demand in all major urban centers in Western Canada. Western Canadian marine operations improved in the first quarter on a volume increase resulting from increased forest products business in British Columbia and the integration of a tug and barge company acquired in mid-1977.

Housing income in both Western Canada and California was lower in the current quarter compared to the first quarter of 1977. In Western Canada, unit sales were slightly higher than last year but rising costs more than offset increased revenues. Demand for housing is at a high level, particularly for duplex and townhouse units and for lower-priced single family units. In California, inclement weather throughout the first quarter has delayed servicing for new developments and completion of homes under construction. As a result, unit sales were lower than in the first quarter of 1977 but buyer interest remains strong.

Building materials and construction divisions in Western Canada were off to a slower start compared with last year due to a hard winter. Cement volume was the same as in the first quarter of 1977.

Our Quebec-based cement, building materials and construction operations were disappointing in the first quarter. This is due in some measure to the reluctance of the private sector to invest in the province, because of political uncertainty, and the outlook for the remainder of the year and beyond 1978 is not encouraging.

In addition to its effect on business, the situation

in Quebec also affects the social milieu in which corporate office employees live. The current atmosphere will inhibit talented people from moving into the province and makes it increasingly difficult to retain professional staff now located here.

One of our concerns is the increasing financial disadvantage which middle and upper income corporate managers, whether at Genstar or at other companies, experience in living in Quebec.

The personal income tax differential between Montreal and other major centers in Canada and the United States is widening. The gap has been increased further by the latest provincial government budget which again hits hardest at the professional managerial group which makes up the largest part of a corporate office staff. This differential in after-tax income is beginning to require a financial sacrifice from the professional, managerial business people which now outweighs the other advantages of living in Montreal.

The operations of many companies headquartered in Montreal are, to a large extent, as in Genstar's case, located outside of Quebec. The establishment of headquarters by

these companies in Montreal was a matter of preference, based on the perception of Montreal as an exciting, cosmopolitan city capable of serving the professional, business and social needs of a corporate office staff.

However, the fact that the advantages Montreal has traditionally enjoyed as a location for a corporate head office are now exceeded by its disadvantages is a cause of concern to many in the community.

We are aware that we are not alone in expressing these concerns and can only hope that the provincial government will consider the potentially adverse effects of its policies on the largest of Quebec's employers, the head office industry in Montreal. The loss of head offices to date has been significant and any further movements out of Montreal could damage the community.

Our concerns extend as well to federal government fiscal and economic policy which, over the past several years, has inhibited the ability of Canadian business to compete, grow and prosper.

The United States, at the same time, appears to have a more receptive atmosphere toward business and has attracted many Canadian companies to expand their operations south

of the border. Genstar is no exception. We see further expansion of our activities and potential in the United States toward our objectives.

R.J. Turner

I would like to take this opportunity to review briefly the main objectives of Genstar's business strategy as we look to the future.

In order to provide the optimum return on investment for our shareholders over both the short and long term, our goal is to develop a diversified earnings base both as to industry and location. To achieve this, we have invested in those geographic areas which provide stable, long-term growth and above average profit potential.

We have stated on a number of occasions as well as in our annual report, that we would be turning our attention for new investments more to the markets in the United States. We believe that a shift in the emphasis of our growth to these markets can provide Genstar with the additional opportunities necessary to achieve our corporate objectives.

In Canada, the majority of the businesses in which we are engaged and the geographic areas in which we operate our activities are relatively mature. We believe that the

larger population base of the U.S., which is ten times that of Canada, gives Genstar the size and density of markets that meets our growth expectations.

There are other important reasons as well that cause us to direct our attention more to the U.S.

We find the climate for business investment in the U.S. is generally more favorable than in Canada. Business does not like to operate in an atmosphere of uncertainty and it should be remembered that capital is mobile.

The present uncertain political climate in Canada does little to promote business confidence as time and energies seem to be diverted from maximizing Canada's natural advantages and building a stronger economy. Over the past few years we have been subject to wage and price controls as well as controls on foreign investment in Canada. At the same time government expenditure at all levels has risen to where it represents over 40 per cent of our Gross National Product.

In recent years the U.S. appears to have managed their economy better. In the U.S., the rate of inflation is considered high at 6.5 per cent but this compares well with the current Canadian rate of 8.8 per cent. Wages in

Canada in most industries are higher despite our depreciated dollar and while productivity in Canada has improved, it is still, on average, 20 per cent less than in the U.S. The decline in the value of the Canadian dollar is a barometer of how others view our economy. Strong leadership is required at all levels if we are to improve economic conditions in the near term.

Our current emphasis on growth in the U.S. is not entirely new. We have been active in California since 1970 in the development of shopping centers, in venture capital investment and in providing title abstract and escrow services in the San Francisco area. Since 1973 we have also been active in house building and land development. These businesses have been expanded over the years to the extent that 22 per cent of our total revenues and 14 per cent of total operating income in 1977 came from our activities in the United States.

In 1977 housing and land development operations were expanded because of the number of potentially profitable opportunities available to us. These opportunities are predominantly in the "Sunbelt" states of the West and South. In California, for instance, we moved from our historical base in Orange County, south of Los Angeles, and began building houses in the San Diego and San

Francisco areas. Total house sales in California have increased from a level of about 250 units in 1973 to 1,000 units last year. Moreover, for the first time in California we sold serviced residential building lots - a total of 350 in 1977.

We have also commenced operations in Florida and Texas. Since 1960 the population of southwest Florida has increased by 141 per cent and that of the Houston area of Texas by 75 per cent, well above the 19 per cent average growth in major metropolitan areas. This year approximately 350 serviced lots will be available for sale from our Florida development near Miami, and in Houston the first Genstar-built housing units will come on stream.

We have also increased our involvement in the field of financial services. Through a newly created division we are participating, mostly as a limited partner, in providing the initial financing for real estate joint ventures. Today we participate in 31 active investments which will have a gross value of approximately $550 million when completed. These ventures include single-family, condominium and apartment developments in a number of areas of California and Texas, garden/office developments in California, Arizona and Texas and shopping centers in Arizona. In addition to our title abstract and escrow services in the

San Francisco area, we have made a small entry into the thrift and loan field and we are presently investigating suitable possibilities for expansion into mortgage banking and specialty leasing businesses in the western United States.

While the expansion in 1977 primarily took place in housing and land development, we continue to seek opportunities for growth in other areas of activity similar to those we are engaged in in Canada. We are also investigating opportunities to enter related businesses.

While we are faced with a less than robust economic climate in Canada, we still look forward with a certain confidence as Genstar is fortunate that the major portion of our operations are located in areas of the country which, in 1978, are expected to perform above the national average.

Over the past five years we have built new plants and modernized our other facilities for the production of building materials throughout Western Canada. Our new Vancouver cement plant will be in production this year and the Edmonton plant expansion will be completed in 1980. The expansion of facilities at Maitland, Ontario for the production of industrial chemical products was completed over a year ago and our West Coast marine fleet has been strengthened and expanded through the addition of new

equipment during the past five years and the acquisition of Gulf of Georgia Towing Co. last year.

In our 1976 annual report we said that we had embarked on an inventory review process to reassess our land holdings in order to bring them more closely into line with our future operational requirements. A major result of this review was the recently announced establishment of Alberta Land Development Company in partnership with ATCO Industries Ltd. of Calgary.

Most of the $350 million of capital expenditures over the past five years was aimed at providing Genstar with the modern facilities and equipment to maintain a position of leadership in our diverse activities in Western Canada. We believe we have been successful in this respect and we see continuing growth for these businesses in the future as the economy expands. We also look forward with optimism to participating in the natural resource-based development of Canada's West and North.

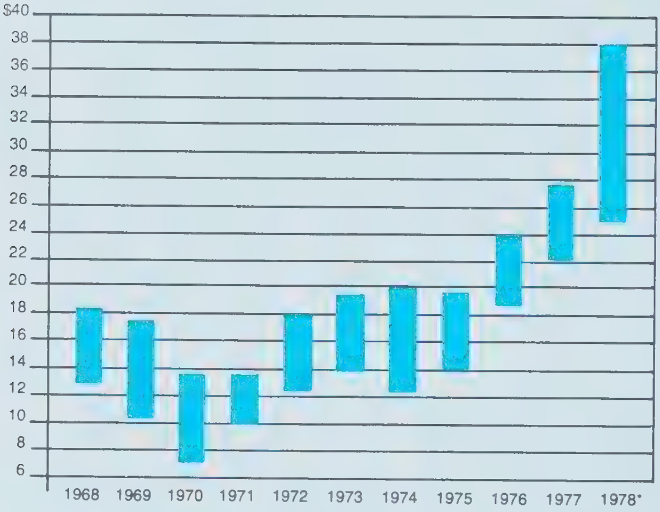
Ladies and Gentlemen, our objective has been to develop a strong team of capable and experienced managers, to provide them with the modern plants and equipment necessary to do the job, and to pursue a strategy of industrial and geographic diversification in order that Genstar can continue to be an attractive investment vehicle for the future.

GENSTAR

AND THE INSTITUTIONAL INVESTOR

GENSTAR

Market Price Range (Common Stock)
Toronto Stock Exchange



*For the ten months ending October 1978.

		1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	10-year compnd. growth rate	5-year compnd. growth rate
Revenues		**$1,039.3**	888.3	721.5	648.6	511.8	369.8	280.6	210.7	253.3	208.6	26.6%	23.0%
Net Income	$	**64.4**	55.7	47.2	35.1	25.0	14.4	10.6	5.8	8.7	5.1	32.4%	34.9%
Shareholders' equity	$	**368.2**	315.6	263.6	226.0	198.6	136.3	126.8	119.9	104.6	86.9	16.6%	22.0%
Per share statistics													
Net income per common share													
Canadian Method — Basic	$	**5.06**	4.63	4.03	3.06	2.52	1.58	1.19	0.68	1.16	0.75	23.6%	26.2%
— Fully diluted		**4.65**	4.18	3.61	2.71	2.18	1.34	1.15	0.67	1.16	0.75	22.5%	28.3%
United States Method — Primary		**5.01**	4.58	4.01	3.05	2.51	1.57	1.18	0.68	1.16	0.75	23.4%	26.1%
— Fully diluted		**4.73**	4.23	3.69	2.77	2.24	1.36	1.18	0.68	1.16	0.75	22.7%	28.3%
Cash flow from operations		**8.62**	8.02	6.76	5.87	4.61	3.43	2.49	2.20	2.77	2.39	18.1%	20.3%
Dividends		**1.42**	1.25	1.20	1.05	0.80	0.65	0.60	0.40	0.70	0.65	8.1%	16.9%
Payout ratio (%)		**28%**	27%	30%	34%	32%	41%	50%	59%	60%	87%		
Book value per share	$	**27.58**	24.30	21.00	18.24	16.30	14.85	15.04	13.41	13.22	12.51	8.4%	13.2%
Market range — high		**27.63**	24.00	19.88	20.00	19.50	18.00	13.50	13.50	17.38	18.25	5.1%	8.9%
Market range — low		**22.38**	19.00	14.38	12.75	14.00	12.75	10.00	7.50	10.50	13.00	8.3%	11.9%
Average price earnings ratio		**4.9**	4.6	4.3	5.4	6.6	9.7	9.9	15.4	12.0	20.8		
Average dividend yield		**5.7%**	5.8%	7.0%	6.4%	4.8%	4.2%	5.1%	3.8%	5.0%	4.2%		
Common shares outstanding (Actual)		**12.9**	11.9	11.5	11.1	10.8	9.2	9.1	8.9	7.9	6.9	7.1%	7.0%
Return on net assets		8.5%	7.5%	10.4%	9.0%	7.6%	5.9%	4.8%	4.0%	4.6%	3.7%		
Return on shareholders' equity		17.9%	18.8%	19.0%	16.7%	14.2%	10.6%	8.4%	4.8%	8.3%	5.9%		

GENSTAR

October, 1978

Genstar has become one of Canada's major corporations in the past five years. The Financial Post ranked Genstar in 1977 as the 18th largest Canadian corporation in terms of net income and 21st in terms of total assets. This is an increase in ranking during the last five years from 41st in terms of net income and 31st in terms of total assets.

GENSTAR LIMITED
FINANCIAL POST RANKINGS

	1977	1973
Net Income	18	41
Total Assets	21	31

Genstar's growth as a major industrial corporation has led to a growing institutional investor interest in Canada, the United States and abroad.

Genstar common shares are currently traded on The New York Stock Exchange; the Toronto, Montreal, Alberta and Vancouver Exchanges in Canada; the Brussels and Antwerp Bourses in Belgium; and the Zurich, Geneva and Basel Exchanges in Switzerland. Multiple listing provides convenient trading facilities for investors in the major capital markets of the world today and means that Genstar shares can be bought or sold in U.S. dollars, Canadian dollars, Belgian francs and in Swiss francs.

As of July 1978, Genstar had 13,250,000 common shares outstanding of which approximately 70% or 9,275,000 are held by individual investors and institutions. In 1977, 1,850,000 shares were traded with an approximate trading value of $50,000,000. Trading volume during the first six months of 1978 has totalled 1,250,000 shares.

The tables embodied in this presentation are designed to place the Corporation into perspective relative to the size and performance of other Canadian industrials.

TABLE ONE ranks the top 50 industrials in terms of estimated common share market float. Control blocks exceeding 50% of outstanding shares have been excluded from this calculation since they are rarely traded. **Genstar ranks 22nd in this listing.**

TABLE TWO maintains the ranking in terms of market float illustrated in TABLE ONE but highlights the 10, 5 and 3 year growth in earnings per share. **Genstar ranks 11th in 5-year growth in earnings per share. During the past 5 years, earnings per share have grown at a compound annual rate of 24.4%.**

TABLE THREE illustrates the annualized total rate of return to investors based on income and capital appreciation. Over the past 5 years, ending in 1977, **Genstar ranked 6th in total annualized return with a rate of 16.3%.**

TABLE FOUR ranks the top 50 Canadian corporations including all equity capital including preferred shares. **In terms of total equity capital Genstar ranks 33rd. Genstar ranks 12th on a 5-year basis in earnings per share with a compound annual growth rate of 24.4%.**

TABLE FIVE again ranks the top 50 in terms of total equity and illustrates total shareholder return. **Genstar has returned 16.3% total annualized return for the past 5 years, ranking 6th among the top 50 Canadian industrials.**

Additional information about Genstar or its shares can be obtained by contacting: Hugh McAdams, Treasurer, or Laurence Karsh, Investor Relations.

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TABLE ONE

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON MARKET CAPITALIZATION EXCLUDING HOLDINGS
OF 50% OR MORE OF THE OUTSTANDING SHARES

Rank	Corporation	Outstanding shares June 30, 1978 (000's)	Estimated number of shares available for trading (1) (000's)	Stock Price Sept. 29, 1978	Estimated market float (000's)
1	Bell Canada	44,155	44,155	$61 1/8	$2,698,974
2	Canadian Pacific Ltd.	71,662	71,662	23 7/8	1,710,930
3	Alcan Aluminum	40,447	40,447	38 3/8	1,552,153
4	Inco	74,594	74,594	20 1/4	1,510,528
5	Dome Petroleum	12,230	12,230	93	1,137,390
6	Seagram	35,077	35,077	32 1/4	1,131,233
7	Moore Corp.	28,521	28,521	36	1,026,756
8	Pacific Petroleums	21,393	21,393	47	1,005,471
9	Imperial Oil (2)	130,246	39,595	23 5/8	935,431
10	Noranda Mines	24,465	24,465	36 1/8	883,798
11	TransCanada PipeLines	39,712	39,712	18	714,816
12	Stelco	24,713	24,713	26 3/4	661,072
13	Dome Mines	6,440	6,440	101 1/2	653,660
14	Walker-Gooderham & Worts	17,376	17,376	36 1/2	634,224
15	MacMillan Bloedel	21,261	21,261	24	510,264
16	Husky Oil	10,934	10,934	44 1/2	486,563
17	Gulf Canada (2)	45,497	14,423	33 1/2	483,170
18	Brascan	28,341	28,341	16 5/8	471,169
19	Dofasco	15,751	15,751	29 1/4	460,716
20	Interprovincial Pipeline	25,574	25,574	17 1/8	437,954
21	Alberta Gas Trunk	27,885	27,885	15 1/2	432,217
22	Genstar	12,947	12,947	33 3/8	432,106
23	Calgary Power	10,666	10,666	39 1/8	417,307
24	Kaiser Resources	26,815	26,815	15 1/4	408,928
25	Westcoast Transmission	33,858	33,858	11 5/8	393,599

Notes: See Page 2.

TABLE ONE (Continued)

TOP 50 CANADIAN INDUSTRIAL AND UTILITY CORPORATIONS BASED ON MARKET CAPITALIZATION EXCLUDING HOLDINGS OF 50% OR MORE OF THE OUTSTANDING SHARES

Rank	Corporation	Outstanding shares June 30, 1978 (000's)	Estimated number of shares available for trading (1) (000's)	Stock Price Sept. 29, 1978	Estimated market float (000's)
26	Hudsons Bay Oil & Gas (2)	18,983	8,944	$43 3/4	$391,300
27	Norcen Energy Resources	22,785	22,785	17	387,345
28	Consumers Gas	20,659	20,659	18 1/2	382,192
29	Denison Mines	4,568	4,568	75 1/2	344,884
30	Abitibi	18,547	18,547	18 1/8	336,164
31	Domtar	14,827	14,827	22	326,194
32	Hudsons Bay	14,155	14,155	23	325,565
33	Southam Press	12,400	12,400	26 1/4(3)	325,500
34	Northern Telecom (2)	26,469	8,205	39 3/8	323,072
35	Shell Canada (2)	63,813	21,225	14 7/8	315,722
36	Placer	12,108	12,108	25 1/4	305,727
37	Simpson	46,969	46,969	6 1/2	305,299
38	Molsons	13,697	13,697	22 1/8(3)	303,046
39	Dominion Bridge	10,636	10,636	27 1/2	292,490
40	Canadian Tire	11,413	11,413	25 1/2(3)	291,032
41	Canadian Superior Oil	8,965	4,408	65 1/2	288,724
42	Consolidated Bathurst	7,296	7,296	36 3/4(3)	268,128
43	Cominco (2)	16,997	7,833	32 5/8	255,552
44	Labatt	11,583	11,583	21 1/2(3)	249,035
45	Massey Ferguson	18,250	18,250	13 1/4	241,813
46	Thomson Newspapers (2)	49,236	14,278	14 7/8(3)	212,385
47	Rio Algom Mines (2)	13,510	5,448	38 1/8	207,705
48	Imasco (2)	9,671	4,996	36 1/8(3)	180,481
49	Home Oil (2)	8,215	4,140	38 1/2(4)	159,390
50	Campbell Red Lake Mines (2)	7,999	3,459	46	159,114

Notes: (1) Excluding holdings of 50% or more of the common shares.
(2) Excluding holding of 50% or more of the common shares.
(3) Class A.
(4) Class B.

Source: Wood Gundy Limited

TABLE TWO

TOP 50 CANADIAN INDUSTRIAL AND UTILITY CORPORATIONS BASED ON MARKET CAPITALIZATION EXCLUDING HOLDINGS OF 50% OR MORE OF THE OUTSTANDING SHARES

Compound Annual Growth in Earnings Per Share (1)

		10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
Rank	Corporation	%	Rank(2)	%	Rank (2)	%	Rank(2)
1	Bell Canada	8.56	32	6.90	33	2.56	30
2	Canadian Pacific Ltd.	19.00	14	24.81	10	10.01	21
3	Alcan Aluminum	-0.06	46	3.02	39	12.05	18
4	Inco	2.01	45	-4.92	44	-29.84	48
5	Dome Petroleum	26.32	5	49.15	2	59.12	1
6	Seagram	6.40	40	4.76	36	2.77	29
7	Moore Corp.	10.95	24	9.09	29	0.81	33
8	Pacific Petroleums	23.02	6	25.33	9	22.62	5
9	Imperial Oil	14.31	22	10.46	27	0.42	35
10	Noranda Mines	3.81	43	-9.88	48	-22.84	45
11	TransCanada PipeLines	18.36	16	18.84	14	18.91	10
12	Stelco	8.08	35	2.62	40	-8.21	39
13	Dome Mines	29.00	3	31.64	5	14.54	16
14	Walker-Gooderham & Worts	3.51	44	-1.06	43	-2.14	37
15	MacMillan Bloedel	(3)	--	(3)	--	(3)	--
16	Husky Oil	21.20	9	21.96	12	3.42	28
17	Gulf Canada	19.35	12	21.57	13	3.64	27
18	Brascan	10.67	26	4.67	37	9.30	23
19	Dofasco	9.52	30	10.07	28	-0.98	36
20	Interprovincial Pipeline	6.89	39	-0.24	42	6.48	26
21	Alberta Gas Trunk	12.67	23	18.40	15	25.17	4
22	Genstar	22.94	7	24.40	11	17.91	12
23	Calgary Power	10.35	28	13.35	20	20.37	9
24	Kaiser Resources	(3)	--	(3)	--	48.26	2
25	Westcoast Transmission	19.00	13	11.21	24	7.60	25

Notes: See Page 2.

TABLE TWO (Continued)

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON MARKET CAPITALIZATION EXCLUDING HOLDINGS
OF 50% OR MORE OF THE OUTSTANDING SHARES

Compound Annual Growth in Earnings Per Share (1)

Rank	Corporation	10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
		%	Rank(2)	%	Rank (2)	%	Rank(2)
26	Hudson's Bay Oil & Gas	17.20	18	28.25	7	18.68	11
27	Norcen Energy Resources	7.23	38	8.13	31	0.44	34
28	Consumers Gas	8.27	33	8.80	30	9.63	22
29	Denison Mines	8.03	36	26.11	8	20.80	7
30	Abitibi Paper Co.	9.89	29	5.64	35	-10.67	41
31	Domtar	8.13	34	-7.61	47	-37.10	49
32	Hudson's Bay	7.84	37	12.54	22	16.33	14
33	Southam Press	15.38	20	10.96	25	10.96	19
34	Northern Telecom	34.77	1	28.66	6	13.68	17
35	Shell Canada	15.42	19	11.83	23	1.81	31
36	Placer	10.51	27	-6.95	45	-25.15	42
37	Simpsons	10.85	25	1.35	41	1.80	32
38	Molson's	5.04	42	6.92	32	15.71	15
39	Dominion Bridge	28.37	4	37.42	3	22.01	6
40	Canadian Tire	18.93	15	13.37	19	8.91	24
41	Canadian Superior Oil	32.91	2	49.46	1	20.69	8
42	Consolidated Bathurst	(3)	--	16.78	17	-29.63	47
43	Cominco	9.46	31	15.66	18	-15.36	43
44	Labatt	5.77	41	-7.55	46	-19.12	44
45	Massey-Ferguson	(3)	--	3.80	38	-26.65	46
46	Thomson Newspapers	21.00	10	17.09	16	17.24	13
47	Rio Algom Mines	17.58	17	6.63	34	-3.51	38
48	Imasco	14.95	21	12.75	21	10.21	20
49	Home Oil	21.85	8	32.58	4	28.17	3
50	Campbell Red Lake Mines	20.08	11	10.94	26	-10.51	40

Notes:
(1) Growth rates calculated by fitting a trend line to the earnings per share results for the period using a least-squares logarithmic method.
(2) Rankings based on the companies for which growth rates could be calculated i.e. 46 companies for the periods 1967-77, 48 for 1972-77, and 49 companies for the period 1974-77. See Note (4).
(3) A growth rate in earnings per share cannot be calculated using the method described in Note (2) if the corporation has had losses in any of the years of the period.

Source: Wood Gundy Limited

TABLE THREE

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON MARKET CAPITALIZATION EXCLUDING HOLDINGS
OF 50% OR MORE OF THE OUTSTANDING SHARES

Annualized Total Rate of Return to Investors (1)

		10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
Rank	Corporation	%	Rank	%	Rank	%	Rank
1	Bell Canada	8.16	20	11.37	12	15.90	26
2	Canadian Pacific Ltd.	9.48	14	6.92	17	14.67	27
3	Alcan Aluminum	3.71	34	8.63	15	17.33	22
4	Inco	-5.20	46	-4.44	39	3.88	39
5	Dome Petroleum	12.31	6	6.63	18	51.57	3
6	Seagram	5.42	29	-8.45	45	-5.65	46
7	Moore Corp.	3.19	37	-7.70	42	-5.86	47
8	Pacific Petroleums	11.14	10	2.89	24	52.48	2
9	Imperial Oil	5.74	28	-13.00	47	3.31	40
10	Noranda Mines	4.89	30	-5.49	40	1.14	42
11	TransCanada PipeLines	9.66	13	5.24	20	31.96	12
12	Stelco	8.26	19	-2.97	37	5.39	38
13	Dome Mines	14.54	2	27.65	3	19.69	20
14	Walker-Gooderham & Worts	3.87	33	-7.15	41	-0.86	44
15	MacMillan Bloedel	1.79	40	-2.22	34	-3.47	45
16	Husky Oil	2.96	38	10.72	14	40.35	8
17	Gulf Canada	7.97	22	-2.92	36	12.14	32
18	Brascan	14.39	3	1.09	28	23.74	14
19	Dofasco	7.32	25	1.65	26	10.38	33
20	Interprovincial Pipeline	1.33	43	-8.17	43	17.27	23
21	Alberta Gas Trunk	11.95	7	1.59	27	21.35	18
22	Genstar	11.42	8	16.29	6	32.87	11
23	Calgary Power	9.12	16	10.82	13	27.63	13
24	Kaiser Resources	---	--	67.94	1	53.05	1
25	Westcoast Transmission	8.42	17	14.93	7	33.09	10

TABLE THREE (Continued)

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON MARKET CAPITALIZATION EXCLUDING HOLDINGS
OF 50% OR MORE OF THE OUTSTANDING SHARES

Annualized Total Rate of Return to Investors (1)

		10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
Rank	Corporation	%	Rank	%	Rank	%	Rank
26	Hudsons Bay Oil & Gas	2.92	39	-1.38	33	48.10	5
27	Norcen Energy Resources	9.13	15	14.38	8	38.07	9
28	Consumers Gas	3.22	36	5.31	19	14.17	28
29	Denison Mines	-1.79	45	19.37	5	20.59	19
30	Abitibi	6.19	27	3.94	22	6.27	37
31	Domtar	11.18	9	3.51	23	-0.45	43
32	Hudsons Bay	1.70	41	2.86	25	21.87	16
33	Southam Press	10.73	11	-2.53	35	3.07	41
34	Northern Telecom	---	--	---	--	21.36	17
35	Shell Canada	6.56	26	-0.13	32	16.74	24
36	Placer	7.66	24	8.32	16	22.40	15
37	Simpson	1.59	42	-11.43	46	-7.55	48
38	Molsons	3.28	35	-8.34	44	8.58	34
39	Dominion Bridge	23.58	1	29.67	2	48.68	4
40	Canadian Tire	9.89	12	-15.63	48	-9.78	49
41	Canadian Superior Oil	---	--	0.73	30	42.54	7
42	Consolidated Bathurst	4.88	31	14.32	9	6.88	35
43	Cominco	7.73	23	12.45	11	16.18	25
44	Labatt	8.33	18	-3.56	38	13.68	30
45	Massey Ferguson	4.13	32	1.06	29	14.01	29
46	Thomson Newspapers	13.70	4	0.36	31	6.40	36
47	Rio Algom Mines	-0.01	44	12.60	10	19.23	21
48	Imasco	---	--	---	--	---	--
49	Home Oil	8.05	21	4.37	21	44.41	6
50	Campbell Red Lake Mines	12.90	5	23.24	4	13.18	31

Notes: (1) Annualized return based on income and capital appreciation.

Source: Wood Gundy Limited

TABLE FOUR

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON TOTAL EQUITY CAPITAL (1)

Compound Annual Growth in Earnings Per Share (2)

		10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
Rank	Corporation	%	Rank(3)	%	Rank (3)	%	Rank(3)
1	Imperial Oil	14.31	22	10.46	27	0.42	36
2	Bell Canada	8.56	34	6.90	33	2.56	31
3	Inco	2.01	47	-4.92	44	-29.84	47
4	Canadian Pacific Ltd.	19.00	14	24.81	11	10.01	22
5	Alcan Aluminum	-0.06	48	3.02	40	12.05	19
6	Gulf Canada	19.35	12	21.57	14	3.64	28
7	Shell Canada	15.42	20	11.83	24	1.81	32
8	Cdn. Pacific Investments	18.70	16	30.60	6	12.45	18
9	Seagram	6.40	42	4.76	38	2.77	30
10	Pan Canadian Petroleum	25.87	5	52.21	1	38.16	3
11	Northern Telecom	34.77	1	28.66	7	13.68	17
12	Moore Corp.	10.95	24	9.09	29	0.81	34
13	Dome Petroleum	26.32	4	49.15	3	52.19	1
14	Pacific Petroleums	23.02	6	25.33	10	22.62	6
15	Noranda Mines	3.81	45	-9.88	47	-22.84	46
16	Stelco	8.08	37	2.62	41	-8.21	40
17	Hudson's Bay Oil & Gas	17.20	19	28.25	8	18.68	12
18	Trans Canada Pipelines	18.36	17	18.84	15	18.91	11
19	Thomson Newspapers	21.00	10	17.09	17	17.24	15
20	Ford Motor of Canada	7.64	39	-14.41	48	-34.64	48
21	Walker-Gooderham & Words	3.51	46	-1.06	43	-2.14	38
22	Dofasco	9.52	30	10.07	28	-0.98	37
23	Cominco	9.46	31	15.66	19	-15.36	43
24	Alberta Gas Trunk	12.67	23	18.40	16	25.17	5
25	Calgary Power	10.35	26	13.35	20	20.37	10

Notes: See Page 2.

TABLE FOUR (Continued)

TOP 50 CANADIAN INDUSTRIAL AND UTILITY CORPORATIONS BASED ON TOTAL EQUITY CAPITAL (1)

Compound Annual Growth in Earnings Per Share (2)

Rank	Corporation	10 years 1967-1977 %	10 years 1967-1977 Rank(3)	5 years 1972-1977 %	5 years 1972-1977 Rank (3)	3 years 1974-1977 %	3 years 1974-1977 Rank(3)
26	Dome Mines	29.00	3	31.64	5	14.54	16
27	MacMillan Bloedel	(4)	--	(4)	--	(4)	--
28	Canadian Superior Oil	32.91	2	49.46	2	20.69	9
29	B.C. Telephone	5.00	44	6.19	35	10.98	20
30	Rio Algom Mines	17.58	18	6.63	34	-3.51	39
31	Brascan	10.67	25	4.67	39	9.30	24
32	Husky Oil	21.20	9	21.96	13	3.42	29
33	Genstar	22.94	7	24.40	12	17.91	13
34	Texaco Canada	9.55	29	-7.49	45	-16.40	44
35	Aquitaine of Canada	18.72	15	12.27	22	17.39	14
36	Algoma Steel	9.60	28	5.62	37	-20.84	45
37	Interprovincial Pipeline	6.89	41	-0.24	42	6.48	27
38	Westcoast Transmission	19.00	13	11.21	25	7.60	26
39	Consumers Gas	8.27	35	8.80	30	9.63	23
40	Ashland Oil Canada	5.23	43	16.85	18	21.36	7
41	Kaiser Resources	(4)	--	(4)	--	48.26	2
42	Canadian Utilities	8.73	32	8.25	31	8.29	25
43	Norcen Energy Resources	7.23	40	8.13	32	0.44	35
44	Abitibi Paper Co.	9.89	27	5.64	36	-10.67	42
45	BP Canada	8.67	33	12.11	23	1.02	33
46	Imasco Ltd.	14.95	21	12.75	21	10.21	21
47	Campbell Red Lake Mines	20.08	11	10.94	26	-10.51	41
48	Domtar Inc.	8.13	36	-7.61	46	-37.10	49
49	Denison Mines	8.03	38	26.11	9	20.80	8
50	Home Oil	21.85	8	32.58	4	28.17	4

Notes: (1) Does not include banks and other financial corporations. Equity capital is defined as market value of common shares at September 29, 1978 plus book value of preferred shares at the latest fiscal year-end.

(2) Growth rates calculated by fitting a trend line to the earnings per share results for the period using a least-squares logarithmic method.

(3) Rankings based on the companies for which growth rates could be calculated i.e. 48 companies for the period 1967-1977, 48 companies for the period 1972-1977 and 49 companies for the period 1974-1977. See Note (4).

(4) A growth rate in earnings per share cannot be calculated using the method described in Note (2) if the corporation has had losses in any of the years of the period.

Source: Wood Gundy Limited

TABLE FIVE

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON TOTAL EQUITY CAPITAL (1)

Annualized Rate of Return Realized by Investors (2)

		10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
Rank	Corporation	%	Rank(3)	%	Rank (3)	%	Rank(3)
1	Imperial Oil	5.74	27	-13.00	48	3.31	42
2	Bell Canada	8.16	19	11.37	13	15.90	31
3	Inco	-5.20	42	-4.44	40	3.88	41
4	Canadian Pacific Ltd.	9.48	13	6.92	19	14.67	32
5	Alcan Aluminum	3.71	32	8.63	17	17.33	27
6	Gulf Canada	7.97	21	-2.92	38	12.14	36
7	Shell Canada	6.56	24	-0.13	35	16.74	29
8	Cdn. Pacific Investments	---	--	14.90	8	20.81	23
9	Seagram	5.42	29	-8.45	47	-5.65	47
10	Pan Canadian Petroleum	6.15	26	20.25	4	72.71	1
11	Northern Telecom	---	--	---	--	21.36	21
12	Moore Corp.	3.19	34	-7.70	44	-5.86	48
13	Dome Petroleum	12.31	6	6.63	20	51.57	5
14	Pacific Petroleums	11.14	10	2.89	28	52.48	4
15	Noranda Mines	4.89	30	-5.49	42	1.14	43
16	Stelco	8.26	18	-2.97	39	5.39	40
17	Hudson's Bay Oil & Gas	2.98	35	-1.38	36	48.10	6
18	Trans Canada Pipelines	9.66	12	5.24	23	31.96	14
19	Thomson Newspapers	13.70	4	0.36	34	6.40	38
20	Ford Motor of Canada	16.82	1	3.49	27	26.49	18
21	Walker-Gooderham & Worts	3.87	31	-7.15	43	-0.86	45
22	Dofasco	7.32	23	1.65	29	10.38	37
23	Cominco	7.73	22	12.45	12	16.18	30
24	Alberta Gas Trunk	11.95	7	1.59	30	21.35	22
25	Calgary Power	9.12	16	10.82	14	27.63	17

Notes: See Page 2

TABLE FIVE (Continued)

TOP 50 CANADIAN INDUSTRIAL AND UTILITY
CORPORATIONS BASED ON TOTAL EQUITY CAPITAL (1)

Annualized Rate of Return Realized by Investors (2)

		10 years 1967-1977		5 years 1972-1977		3 years 1974-1977	
Rank	Corporation	%	Rank(3)	%	Rank (3)	%	Rank(3)
26	Dome Mines	14.54	2	27.65	2	19.69	25
27	MacMillan Bloedel	1.79	38	-2.22	37	-3.47	46
28	Canadian Superior Oil	---	--	0.73	32	42.54	8
29	B.C. Telephone	10.21	11	13.88	10	28.07	16
30	Rio Algom Mines	-0.01	40	12.60	11	19.23	26
31	Brascan	14.39	3	1.09	31	23.74	19
32	Husky Oil	2.96	36	10.72	15	40.35	9
33	Genstar	11.42	8	16.29	6	32.87	13
34	Texaco Canada	5.58	28	-4.65	41	21.49	20
35	Aquitaine of Canada	---	--	-7.78	45	12.95	35
36	Algoma Steel	2.80	37	9.15	16	-11.84	49
37	Interprovincial Pipeline	1.33	39	-8.17	46	17.27	28
38	Westcoast Transmission	8.42	17	14.93	7	33.09	12
39	Consumers Gas	3.22	33	5.31	22	14.17	33
40	Ashland Oil	---	--	5.40	21	55.06	2
41	Kaiser Resources	---	--	67.94	1	53.05	3
42	Canadian Utilities	9.13	14	7.69	18	38.39	10
43	Norcen Energy Resources	9.13	15	14.38	9	38.07	11
44	Abitibi	6.19	25	3.94	25	6.27	39
45	BP Canada	---	--	0.48	33	31.94	15
46	Imasco	---	--	---	--	---	--
47	Campbell Red Lake Mines	12.90	5	23.24	3	13.18	34
48	Domtar	11.18	9	3.51	26	-0.45	44
49	Denison Mines	-1.79	41	19.37	5	20.59	24
50	Home Oil	8.05	20	4.37	24	44.41	7

Notes:
(1) Does not include banks and other financial corporations. Equity capital is defined as market value of common shares at September 29, 1978 plus book value of preferred shares at latest fiscal year-end.
(2) Annualized return based on income and capital appreciation.
(3) Rankings based on companies for which information was available i.e. 42 companies for the period 1967-1977, 48 companies for the period 1972-1977 and 49 companies for the period 1974-1977.

Source: Wood Gundy Limited

NOTES

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